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## GENERAL ACCOUNTING

### SECTION 1100

#### generally accepted accounting principles

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<b>PURPOSE AND SCOPE</b>	
.01 This Section describes what constitutes generally accepted accounting principles for private enterprises reporting in accordance with Part II of the Handbook. This Section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles.	
<b>DEFINITIONS</b>	
.02 The following terms are used in this Section with the meanings specified:	
(a) <b>Accounting policies</b> encompass the specific principles and the methods used in their application that are selected by an entity in preparing financial statements.	
(b) <b>Generally accepted accounting principles (GAAP)</b> encompass broad principles and conventions of general application as well as rules and procedures that determine accepted accounting practices at a particular time.	
(c) <b>Primary sources of generally accepted accounting principles (primary sources of GAAP)</b> are, in descending order of authority:	
(i) Sections 1400-3870, including Appendices; and	
(ii) Accounting Guidelines, including Appendices.	
<b>SOURCES OF GAAP</b>	
.03 ♦ <i>An entity shall apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the entity.</i>	
.04 ♦ <i>When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the entity, or additional guidance is needed to apply a primary source to specific circumstances, an entity shall adopt accounting policies and disclosures that are:</i>	
(a) <i>consistent with the primary sources of GAAP; and</i>	
(b) <i>developed through the exercise of professional judgment and the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section 1000.</i>	
.05 The primary sources of GAAP provide the financial statement accounting and reporting requirements as well as explanations and guidance for most transactions and events encountered by an entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to	

- the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic or social conditions.
- .06 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events encountered by the entity or when additional guidance is needed to apply a primary source to specific circumstances.
- .07 An entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph 1100.04. An entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:
- (a) The specificity of the source. A source that deals with the specific circumstances is likely to be more relevant than one from which the entity must analogize.
  - (b) The authority of the issuer or author. A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.
  - (c) The continued relevance of the source. The passage of time may diminish the relevance of certain sources.
  - (d) The development process for the source. A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.
- .08 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, an entity takes into account the primary sources of GAAP as well as the concepts described in FINANCIAL STATEMENT CONCEPTS, Section 1000.
- .09 An entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.
- .10 An entity considers all sources of GAAP that it consults in the context of FINANCIAL STATEMENT CONCEPTS, Section 1000. Section 1000 describes the concepts underlying the development and use of accounting principles in general purpose financial statements (financial statements). An entity adopts accounting policies that are consistent with the concepts described in Section 1000. The Board considers a source to be consistent with the concepts in Section 1000 when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in Section 1000.
- .11 When the concepts in FINANCIAL STATEMENT CONCEPTS, Section 1000, conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts in Section 1000 in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflict between the concepts in Section 1000 and primary sources of GAAP will diminish over time.
- .12 An entity may be required to prepare financial statements in accordance with regulatory, legislative or contractual requirements. When these requirements are within the range of acceptable choices allowed by this Section, the basis of accounting can be described as being in accordance with GAAP. The Board seeks to minimize instances when GAAP and regulatory or legislative requirements conflict. However, in those circumstances in which conflict does exist, users of financial statements need to know that the statements are not prepared in accordance with GAAP. Therefore, if the basis of accounting used to prepare such financial statements conflicts with the requirements of this Section, that basis cannot be described as being in accordance with GAAP.

#### **Primary sources of GAAP**

- .13 Italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally indicate the main principles, while non-italicized generally explain their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, an entity complies with the non-italicized paragraphs as well as the italicized paragraphs. When there appear to be different ways of interpreting the non-italicized paragraphs, an entity selects the treatment that is most consistent with the italicized paragraphs.
- .14 Accounting Guidelines set out how existing Sections shall be applied in specific cases or the Board's conclusions on other particular issues of concern with respect to financial reporting.
- .15 Appendices are an integral part of primary sources of GAAP and include an introductory statement to that effect. These Appendices have been approved by the Board and carry the same level of authority as the document they support.
- .16 Sections and Accounting Guidelines sometimes have illustrative material such as examples and decision trees. Illustrative material is intended to help in understanding how the Section or Accounting Guideline might be applied rather than to require a specific accounting treatment. While entities may chose to apply the illustrative material when determining their accounting or financial reporting practices, this is not required and alternatives that are consistent with the Section or Accounting Guideline may also be selected.

#### **Other sources**

- .17 Paragraphs 1100.18-.26 identify some of the other sources that an entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph 1100.04.
- .18 Background Information and Basis for Conclusions documents issued by the Board are intended to help readers understand how the Board reached its conclusions but do not include explanations of requirements or application guidance that properly belong in the related pronouncement.
- .19 In some circumstances, the Board authorizes the development of implementation guidance that clarifies certain aspects of a new or particularly complex pronouncement. Such guidance is identified as having been authorized by the Board. For example, the "Employee Future Benefits Implementation Guide" and its "Supplement" provide guidance on how to apply EMPLOYEE FUTURE BENEFITS, Section 3461.
- .20 Part I of the Handbook may be an important source to consult on matters not covered by Part II or to assist in applying a standard to specific circumstances. Pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions may also be useful sources to consult. However, it is not necessary to comply with Part I or with pronouncements issued by other bodies in order to comply with accounting standards for private enterprises.
- .21 When an entity chooses to consult a source described in paragraph 1100.20, it evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts in FINANCIAL STATEMENT CONCEPTS, Section 1000, an entity needs to take particular care to ensure that the selected source is consistent with Section 1000.
- .22 Organizations other than the Board might issue guidance indicating how primary sources of GAAP may be applied in particular circumstances. The Board does not authorize such guides, as it does an Implementation Guide described in paragraph 1100.19. Those guides that specifically indicate that they take the Canadian environment into account would be consulted in preference to those that do not.

- .23 In exercising professional judgment, an entity might wish to consult approved drafts of primary sources of GAAP when no primary source of GAAP applies to a particular situation. Approved drafts include exposure drafts and other documents for comment approved by the Board. An entity is not required to apply a proposal in an approved draft until the resulting primary source of GAAP becomes effective. The requirements of any existing accounting pronouncement that would be affected by the proposals in draft material remain in force until the effective date of any superseding material. In some cases, approved drafts may demonstrate how FINANCIAL STATEMENT CONCEPTS, Section 1000, and other principles embedded in Part II of the Handbook can be applied in circumstances for which no primary sources of GAAP currently apply. However, an entity would not apply a proposal in an approved draft that conflicts with Section 1000 or a primary source of GAAP. Since the proposals in draft material are subject to revision, entities need to consider the consequences of any changes that may be made to the proposals as they are finalized. A document at a more advanced stage of the consultation process supersedes earlier versions. For example, an entity refers to an exposure draft on a particular topic in preference to a statement of principles on that same topic.
- .24 A study group's conclusions in a research report or research study may also be consulted to the extent that they comply with paragraph 1100.04. Since conclusions of the Board may differ from those of a study group, similar caution is exercised in using research reports and studies as in using the sources described in paragraphs 1100.22-.23.
- .25 Accounting textbooks, journals, studies and articles indicating that they take the Canadian environment into account are consulted in preference to those that do not.
- .26 Sometimes a practice has been established that does not result from written material. The relevance of such a practice would be demonstrated by its compliance with paragraph 1100.04 and not by its use generally or within a particular industry. Extreme interpretations of a source do not constitute evidence that the criteria in paragraph 1100.04 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP of the financial position, results of operations or cash flows of the entity.
- Consistency of accounting policies**
- .27 An entity selects and applies its accounting policies for a period consistently for similar transactions, other events and circumstances, unless the source of GAAP consulted by the entity specifically requires or permits categorization of items for which different policies may be appropriate. If the source of GAAP consulted by the entity requires or permits categorization of items, the entity selects an appropriate accounting policy and applies it consistently to each category.

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