CHAPTER 1 The Canadian Financial Reporting Environment

Financial Statement, and Financial Reporting

Accounting identifies, measures, and communicates financial information about economic entities to users of financial statements.

Objective of Financial Reporting

• To provide information to users so they can make relevant decisions in allocating resources.
• Information should be free from management bias so all stakeholders have equal access to all relevant information.

Standard Setting

• A common set of standards and procedures is called generally accepted accounting principles (GAAP).
• GAAP for Canadian private companies is referred to as Accounting Standards for Private Enterprises (ASPE).
• International GAAP is referred to as International Financial Reporting Standards (IFRS).

Challenges Facing Financial Reporting are:

• globalization of companies and capital markets
• impact of technology
• changing nature of the economy
• increased requirements for accountability

CHAPTER 2 Conceptual Framework Underlying Financial Reporting

Elements of Financial Statements

Asset: Represent economic benefit to the entity; entity controls the benefit; benefit results from past transaction or event.

Liabilities: Represent a present duty; the entity cannot avoid it; results from a past transaction or event

Equity: Residual interest in assets after deducting liabilities, also described as net worth

Revenues: Increases in economic resources from ordinary business activities

Expenses: Decreases in economic resources from ordinary revenue-generating activities of the business

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Gains/Losses: Increases/decreases in equity from peripheral or incidental transactions.

Comprehensive Income: Net income and all other changes in equity except for owners’ investments and distributions.

Foundational Principles

<table>
<thead>
<tr>
<th>Recognition/ Derecognition</th>
<th>Measurement</th>
<th>Presentation and Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Control</td>
<td>6. Monetary Unit</td>
<td></td>
</tr>
<tr>
<td>3. Revenue recognition and realization</td>
<td>7. Going concern</td>
<td></td>
</tr>
<tr>
<td>4. Matching</td>
<td>8. Historical cost</td>
<td></td>
</tr>
<tr>
<td>9. Fair value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CHAPTER 3 The Accounting Information System

• Financial Accounting identifies, records, classifies, and interprets transactions related to an enterprise.

• Debits and credits are used to describe where entries are made.

• The equality of debits and credits is the basis for the double entry system of recording transactions.

• The following equations illustrate how entries are made.

<table>
<thead>
<tr>
<th>Prepayments</th>
<th>Accruals</th>
<th>Estimated Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prepaid Expenses.</td>
<td>3. Accrued Revenues.</td>
<td>5. Bad debts.</td>
</tr>
<tr>
<td>Expenses paid in cash and recorded as assets before they are used or consumed.</td>
<td>Revenues earned but not yet received in cash or recorded.</td>
<td>Expenses for impaired accounts receivable</td>
</tr>
<tr>
<td>Revenues received in cash and recorded as liabilities before they are earned.</td>
<td>Expenses incurred but not yet paid in cash or recorded.</td>
<td>Adjustments to fair value of certain investments – through Net Income.</td>
</tr>
<tr>
<td>7. Unrealized Holding Gain or Loss – OCI.</td>
<td></td>
<td>Adjustments to fair value of certain investments through Other Comprehensive Income.</td>
</tr>
</tbody>
</table>

• Adjusting entries are required every time financial statements are prepared. The use of T accounts is recommended to ensure all trial balance accounts are complete and up to date.

• Financial Statements are prepared from the adjusted trial balance.

Accounting Cycle

• The accounting cycle begins with the identification and measurement of transactions and eventually produces financial statements.

• In accordance with the revenue recognition principle and the matching principle, entries are made to adjust the accounts so that revenue and expenses are matched in the period in which they occur.

• Adjusting entries can be classified as prepayments, accruals or estimated items. Each of these classes has subcategories as follows:

• Closing entries are prepared to reduce temporary account balances to zero in preparation for next year’s transactions. A post-closing trial balance is taken.
Using a Work Sheet

- A work sheet is a multi-column spreadsheet used by accountants to prepare financial statements.
- Work sheets do not replace the financial statements but bring together all aspects of statement preparation from trial balance through to closing entries—all on one spreadsheet.

**CHAPTER 4 Reporting Financial Performance**

<table>
<thead>
<tr>
<th>Usefulness</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate past performance and profitability</td>
<td>Items that cannot be reliably measured are not reported</td>
</tr>
<tr>
<td>Provide a basis for predicting future performance</td>
<td>Income numbers affected by accounting methods used</td>
</tr>
<tr>
<td>Help assess risk or uncertainty of achieving future net cash inflows</td>
<td>Income measurement involves use of estimates, Financial reporting bias</td>
</tr>
</tbody>
</table>

High-quality earnings have the following characteristics:

1. **Content**
   - **Unbiased**, as numbers are not manipulated, and objectively determined. Consider the need to estimate, the accounting choices, and the use of professional judgement.
   - **Reflect the economic reality** as all transactions and events are appropriately captured.
   - **Reflect primarily the earnings generated from ongoing core business activities** instead of earnings from one-time gains or losses.
   - **Closely correlate with cash flows from operations**. Earnings that convert to cash more quickly provide a better measure of real earnings as there is little or no uncertainty about whether they will be realized.
   - **Based on sound business strategy and business model**. Consider the riskiness of the business, business strategy, industry, and the economic and political environments. Identify the effect of these on earnings stability, volatility, and sustainability.

2. **Presentation**
   - **Transparent**, as no attempt is made to disguise or mislead. It reflects the underlying business fundamentals.
   - **Understandable**

**Format of the Income Statement**

**Income Statement and Statement of Comprehensive Income**

- Net income is revenues and gains less expenses and losses from continuing and discontinued operations. **Comprehensive income** is net income plus/minus other comprehensive income.
- Material, unusual gains and losses are disclosed separately.
- Single Step Income Statements show only two main groups: revenues and expenses.
- Multiple Step Income Statements separate the company’s operating activities from its non-operating activities. It is more informative and more useful.
- Earnings Per Share is an important calculation that sums up the result of the company’s operations. It is a key indicator of the company’s performance and is calculated as follows:

\[
\text{Earnings Per Share} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average Number of Common Shares Outstanding}}
\]

- Statement of Retained Earnings is required under ASPE but not IFRS. A Statement of Changes in Equity, showing changes in all equity accounts and not just retained earnings is required under IFRS.

**CHAPTER 5 Financial Positions and Cash Flows**

**Classifications Within the Statement of Financial Position:**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Shareholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>Current liabilities</td>
</tr>
<tr>
<td>Non-current investments</td>
<td>Long-term debt and liabilities</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>Shareholders’ equity</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>Capital shares</td>
</tr>
<tr>
<td>Other assets</td>
<td>Contributed surplus</td>
</tr>
<tr>
<td></td>
<td>Retained earnings</td>
</tr>
<tr>
<td></td>
<td>Accumulated other comprehensive income</td>
</tr>
</tbody>
</table>
• Accounts are classified so that similar items are grouped together. Parts and subsections of the balance sheet can be more informative than the whole.

• In presenting the balance sheet, the parts and subsections can give users information in a clear and understandable format.

• Where necessary, additional information is reported as disclosures to the statements. Disclosures should be as complete as possible.

Uses and Limitations of the Balance Sheet

<table>
<thead>
<tr>
<th>Usefulness</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis of:</td>
<td>Most financial assets and liabilities are stated at historical cost, which can be less relevant than fair value.</td>
</tr>
<tr>
<td>1. liquidity – the amount of time until an asset is realized or a liability has to be paid;</td>
<td>Judgements and estimates are used in determining many of the items.</td>
</tr>
<tr>
<td>2. solvency – an enterprise’s ability to pay its debts and related interest; and</td>
<td>Many items are omitted because they cannot be measured objectively.</td>
</tr>
<tr>
<td>3. financial flexibility – the ability to take action to alter the amounts and timings of cash flows so it can respond to opportunities and unexpected needs.</td>
<td></td>
</tr>
</tbody>
</table>

Statement of Cash Flows

The cash flow statement presents a detailed summary of all the cash inflows and outflows, or the sources and uses of cash during the period. Cash flows are classified as operating, investing or financing activities.
Steps to Preparing a Statement of Cash Flows

1. Determine cash provided by or used in operating, investing and financial activities.
2. Determine the change in cash during the period.
3. Reconcile the change in cash with the beginning and ending cash balances.

Usefulness of the Statement of Cash Flows

Measurement of cash provided by operating activities can answer the following questions:

- What are the reasons for positive or negative cash situation?
- What is the sustainability of cash portion over time?
- What are the trends in net cash flow over time?

CHAPTER 6 Revenue Recognition

Sales Transactions from a Business Perspective

- Capturing sales transactions
- Deciding when to recognize the transaction
- Deciding how to measure and present it.

Legalities—Law protects the rights of individuals and legal entities

- FOB shipping point – title passes at point of shipment
- FOB destination – title passes when asset reaches customer

Also includes legal obligations like warranty/pension/environmental/securities

Sales Transactions – Recognition and Measurement

<table>
<thead>
<tr>
<th>Earnings Approach</th>
<th>Risk and rewards are transferred and/or the earnings process is substantially complete. Focus on income statement.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Costs and revenues can be measured reliably.</td>
</tr>
<tr>
<td></td>
<td>Collectibility is probable.</td>
</tr>
<tr>
<td>Contract-Based Approach</td>
<td>When should the sales contract be recognized on the balance sheet?</td>
</tr>
<tr>
<td></td>
<td>Focus is on the balance sheet.</td>
</tr>
<tr>
<td></td>
<td>When should the revenue be recognized on the income statement?</td>
</tr>
</tbody>
</table>

Under either method, the following issues exist:

Measurability

- Revenue should only be recognized if the transaction is measurable.

Collectibility

- Revenue is recognized if it is reasonably sure that the receivable will ultimately be collected.

Under the earnings approach there might be issues of special marketing arrangements known as consignment sales. The consignor (e.g., manufacturer) ships merchandise to a consignee (a dealer) who acts as an agent for the consignor and sells the merchandise.

Long-Term Contracts and Percentage-of-Completion Method

The percentage-of-completion method recognizes revenue costs and gross profit as progress is made toward completion on a long-term contract.

Under the cost-to-cost basis, the percentage of completion is measured by comparing costs incurred to date with the most recent estimate of the total costs to complete the contract. The formula for this is shown here:

\[
\frac{\text{Costs incurred to date}}{\text{Most recent estimate of total costs}} = \text{Percent complete}
\]

The percentage of costs incurred out of total estimated costs is then applied to the total revenue or the estimated total gross profit on the contract to arrive at the revenue or the gross profit amounts to be recognized to date. The formula is shown below:
Recognize receivables when the entity becomes a party to the contractual provisions of the financial instrument.

- Measure the receivables initially at its fair value
- After initial recognition, measure receivables at amortized cost
- All receivables must be assessed for indicators of uncollectibility or impairment

### Completed-Contract Method

- Revenue and gross profit are recognized when the contract is completed under the earnings approach.
- Under the contract-based approach the completed-contract method is not used for services rendered.

### Losses on Long-Term Contracts:

- Loss in current period on a profitable contract: Under the percentage-of-completion method only, the increase in the estimated cost requires an adjustment in the current period.
- Loss on an unprofitable contract must be recognized in the current period.

### CHAPTER 7 Cash and Receivables

Cash: Most liquid assets include cash and cash equivalents like certificates of deposits and short term investments

- Special attention is paid to restricted cash, bank overdrafts, cash in foreign accounts, and cash equivalents

Accounts receivable: Claims that a company has against customers and others

- Recognize receivables when the entity becomes a party to the contractual provisions of the financial instrument.
- Measure the receivables initially at its fair value
- After initial recognition, measure receivables at amortized cost
- All receivables must be assessed for indicators of uncollectibility or impairment

### Derecognition of Receivables

Accounts and Notes Receivable are derecognized when:

- Cash is collected
- It is used as collateral in borrowing transactions, known as secured borrowings
It is sold to a factor (e.g., finance company) which collects the amounts used directly from the customer for a fee.

**Transfer Criteria for Accounts Receivable**

Under ASPE, a sale is recognized when all three of the following are met. Otherwise, it is recognized as a secured borrowing:

1. The transferor surrenders control of the receivables.
2. The transferee has the right to pledge the assets or exchange them.
3. There is no repurchase agreement.

Under IFRS, a sale is recognized if the entity transfers the right to receive cash flows of the account receivable, or retains the right to receive the cash flow but must pay the cash flows to one or more recipients.

**CHAPTER 8 Inventory**

**Inventory Categories**

Retailers and Wholesalers:
- merchandise inventory

Manufacturing Company:
- raw materials
- work in process
- finished goods

**Lower of Cost and Net Realizable Value Model**

During any period physical inventory increases and decreases, and the cost of the same items fluctuates. This requires the ending inventory to be valued conservatively at the lower of cost or net realizable value. When calculating the ending inventory, ask these questions:

- Which physical goods should be included?
- What costs should be included?
- What cost formula should be used?
- Has there been an impairment in value of any inventory items?

**Inventory Accounting Systems**

- A Perpetual system continually tracks changes in the inventory account.
- In a Periodic system, the quantity of inventory on hand is determined at the end of the accounting period, typically by physical count.

**Cost Formulas**

When inventories are priced at cost and many purchases have been made, cost formulas are used to assign inventory cost. Specific Identification is used in situations where items are costly and easily distinguishable (e.g., automobiles).

- Weighted Average is based on the average cost of goods that are available for sale during the period when the periodic inventory method is used.
- Moving Average is calculated each time a new purchase is made so the average cost is constantly updated. This formula is suitable when the perpetual inventory method is used.
- First In, First Out (FIFO) assigns costs based on the assumption that goods are used in the order in which they are purchased.

**Lower of Cost and Net Realizable Value**

- Cost is not reported on the balance sheet if the inventory is now less than its carrying amount.
- Net realizable value (NRV) is used in this situation. NRV is estimated selling price less estimated cost to complete and sell goods.
- The loss of utility of the asset is deducted from revenue in the period in which the loss occurs, not when inventory is sold.

**Estimating Inventory**

- When a physical inventory is impractical or impossible, estimates of ending inventory are used.
- This can occur when financial statements are required before the company’s year end. Estimation methods used are: 1) the gross profit method and 2) the retail inventory method.
The Gross Profit Method of Inventory Estimation

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning inventory, at cost</td>
<td>$x</td>
<td>$xx</td>
</tr>
<tr>
<td>Purchases, at cost</td>
<td>$x</td>
<td></td>
</tr>
<tr>
<td>Goods available for sale, at cost</td>
<td>$x</td>
<td></td>
</tr>
<tr>
<td>Sales (at selling price)</td>
<td>$x</td>
<td></td>
</tr>
<tr>
<td>Less: Gross profit (% * sales)</td>
<td>$x</td>
<td></td>
</tr>
<tr>
<td>Sales at cost = Estimated COGS</td>
<td>$x</td>
<td></td>
</tr>
<tr>
<td>Estimated Inventory (at cost)</td>
<td>$x</td>
<td></td>
</tr>
</tbody>
</table>

NB: The percentage of gross profit is usually known by the company.

Financial Statement Effects of Misstated Ending Inventory

Inventory errors occur when items are incorrectly included or excluded in determining the ending inventory. When ending inventory is overstated or (understated), errors affect both the Balance Sheet and Income Statement as shown below.

<table>
<thead>
<tr>
<th>Statement of Financial Position (Balance Sheet)</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Overstated (Understated)</td>
<td>Cost of goods sold Overstated (Understated)</td>
</tr>
<tr>
<td>Retained earnings Overstated (Understated)</td>
<td>Net income Overstated (Understated)</td>
</tr>
<tr>
<td>Working capital Overstated (Understated)</td>
<td></td>
</tr>
<tr>
<td>(current assets less current liabilities)</td>
<td></td>
</tr>
<tr>
<td>Current ratio Overstated (Understated)</td>
<td></td>
</tr>
<tr>
<td>(current assets divided by current liabilities)</td>
<td></td>
</tr>
</tbody>
</table>

**General Rule—Who Reports the Inventory?**

Inventory is the buyer’s when it is received, except:

- Goods in transit (f.o.b. shipping point) — Buyer’s at time of delivery to common carrier
- Consignment goods — Seller’s, not buyer’s
- Sales with buybacks — Seller’s, not buyer’s
- Sales with high rates of return — Buyer’s, if returns can be estimated
- Sales with delayed credit terms — Buyer’s, if collectibility can be estimated
- Purchase commitments — Title transfers to buyer on delivery

APPENDIX The Retail Inventory Method

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning inventory</td>
<td>$x</td>
<td>$xx</td>
</tr>
<tr>
<td>Plus purchases</td>
<td>y</td>
<td></td>
</tr>
<tr>
<td>Goods available for sale</td>
<td>$z</td>
<td>$xx*</td>
</tr>
<tr>
<td>Deduct: sales (known)</td>
<td>(xx)</td>
<td></td>
</tr>
<tr>
<td>Ending inventory at retail</td>
<td>$xx**</td>
<td></td>
</tr>
<tr>
<td>Ratio of cost to retail (z / xx)</td>
<td>x%</td>
<td></td>
</tr>
<tr>
<td>Ending inventory at cost (x% of xx**)</td>
<td>$xx</td>
<td></td>
</tr>
</tbody>
</table>

CHAPTER 9 Investments

Basic financial instruments are debt and equity instruments:

- Debt instruments include debt securities, investments in government and corporate bonds, and commercial paper.
- Equity instruments include common, preferred, or other capital stock or shares.

Companies invest either to have

- returns provided by investments
- corporate strategy: a special relationship with a supplier or customer

Investments are recognized and measured at their fair value at acquisition.

There are three major models of accounting for investments:

1. Cost/amortized cost
2. Fair Value through Net Income (FVNI)
3. Fair Value through Other Comprehensive Income (FV-OCI)
ASPE requires that investments accounted for at cost or amortized cost use the incurred loss model. Impaired cash flows are discounted using the current market rate.

Impairments standards under IFRS were in the process of being worked on as the text went to print.

IASB has proposed that investments accounted for at cost or amortized cost use the expected loss model and that investments accounted for at FV-OCI do not need an impairment model and should simply be accounted for at fair value at each balance sheet date.

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Investments in Associates

When an investment is made for strategic purposes, management uses control on the investee’s policies depending on the percentage of the outstanding voting shares owned. Depending on the percentage owned and the distribution of shares to other investors, management may exercise significant influence over the investee.

<table>
<thead>
<tr>
<th>Percentage Ownership</th>
<th>0%</th>
<th>20%</th>
<th>50%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Influence</td>
<td>Little or none</td>
<td>Significant</td>
<td>Control</td>
<td></td>
</tr>
<tr>
<td>Type of Investment</td>
<td>Less than significant influence</td>
<td>Associate, or significant influence</td>
<td>Subsidiary</td>
<td></td>
</tr>
</tbody>
</table>

CHAPTER 10 Property, Plant, and Equipment: Accounting Model Basics

Measurement of Cost

<table>
<thead>
<tr>
<th>Measurement of Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Discounts</td>
</tr>
<tr>
<td>Asset cost is definitely net-of-discount amount if discount is taken. In practice, if the discount is not taken, could be net-of-discount anyway.</td>
</tr>
<tr>
<td>Deferred Payment Contracts</td>
</tr>
<tr>
<td>Asset cost is the present value of the consideration exchanged on transaction date.</td>
</tr>
<tr>
<td>Lump Sum Purchase</td>
</tr>
<tr>
<td>Use relative fair value basis to allocate purchase price among assets acquired.</td>
</tr>
<tr>
<td>Non-Monetary Transactions</td>
</tr>
<tr>
<td>cost of PP&amp;E asset acquired determined by fair value of assets given up – unless fair value of asset received is more reliably measured.</td>
</tr>
<tr>
<td>if transaction lacks commercial substance or fair value not reliably measurable, record at carrying value of assets given up.</td>
</tr>
<tr>
<td>Donated assets Government grants</td>
</tr>
<tr>
<td>record at fair value</td>
</tr>
<tr>
<td>recognize in income as revenue or reduction of expense.</td>
</tr>
</tbody>
</table>

Measurement After Acquisition

- Cost Model (CM), Revaluation Model (RM) and Fair Value Model (FVM) are currently used.
- The cost model is the most commonly used method under IFRS. This model measures PPE after acquisition at cost less accumulated depreciation and any impairment losses.
### Impairment

#### Indicators
- Reduction in market value, physical damage/obsolescence change in technology, book value of net assets < firm market capitalization

#### Recognition Cost Recovery
- If carrying amount of asset is ≥ asset and Impairment undiscounted future net cash flows, then write down asset to fair value.

#### Rational Entity
- If asset carrying amount > the higher Impairment of value in use and fair value less costs of disposal, then write down asset to recoverable amount.

### Disposition

#### Disposal By Sale
- Assets held for sale are not depreciated while they are held
- They meet the criteria for recognition as current assets
- They are reported separately on the balance sheet with disclosures
- Unless an asset is classified as held for sale, depreciation is taken up to the date of derecognition
- The carrying amount is compared to the disposal value and a gain or loss is recognized

### CHAPTER 12 Intangible Assets and Goodwill

#### Goodwill

Goodwill is the residual amount – the excess of cost over the fair value of the identifiable net assets acquired.

- **Step One:** Determine fair value of identifiable net assets acquired.
- **Step Two:** Determine costs of all assets purchased
- **Step Three:** Determine excess of cost over fair value of identifiable net assets acquired. This amount is equal to cost of goodwill.

Negative Goodwill: If the fair value of identifiable net assets is higher than the cost, the transaction is a bargain purchase resulting in negative goodwill. The credit resulting from a bargain purchase is taken into Income.

Goodwill acquired is considered to have an indefinite life and is not amortized. Goodwill is tested for impairment.
# Intangible Assets

<table>
<thead>
<tr>
<th>Intangible Assets Characteristics</th>
<th>Life of Intangibles</th>
</tr>
</thead>
<tbody>
<tr>
<td>- non-monetary assets</td>
<td>- Assets with finite or limited lives are amortized over their useful lives</td>
</tr>
<tr>
<td>- no physical substance</td>
<td>- Assets with indefinite lives are not amortized</td>
</tr>
<tr>
<td>- identifiable resulting from legal rights</td>
<td></td>
</tr>
<tr>
<td>Recognition and Measurement Purchased Intangibles</td>
<td>Specific Intangibles</td>
</tr>
<tr>
<td>- expect to bring future benefits to entity</td>
<td>- Marketing related; e.g., trademarks, trade names, newspaper mastheads, internet domain names</td>
</tr>
<tr>
<td>- costs can be measured reliably</td>
<td>- Customer-related; e.g., customer lists, order on production backlogs, customer contracts</td>
</tr>
<tr>
<td>- purchased as a single asset (e.g., trademark or patent)</td>
<td>- Artistic-related; e.g., ownership rights to plays, musical works, video and audiovisual material, copyrights</td>
</tr>
<tr>
<td>- purchased in a “basket purchase” which is allocated based on relative fair value</td>
<td>- Contract-based; e.g., licensing agreements, lease agreements, broadcast rights, franchises</td>
</tr>
<tr>
<td>Internally Developed Intangibles</td>
<td>- Technology-based; e.g., patent technology and trade secrets</td>
</tr>
<tr>
<td>- when developed internally, cost measurement is different. Uncertainty must be dealt with based on research phase and development phase</td>
<td>- same impairment models apply to limited life intangibles that apply to long-lived tangible assets</td>
</tr>
<tr>
<td>- research cost is expensed when incurred</td>
<td>- ASPE – when there is indication of impairment, indefinite-life intangibles are tested for impairment using a fair-value test.</td>
</tr>
<tr>
<td>- development cost capitalized only when future benefits are reasonably certain</td>
<td>- IFRS – test annually for impairment</td>
</tr>
<tr>
<td>- selling, administrative, general overhead and organization costs are expensed</td>
<td>- intangible assets are derecognized when they are disposed of or when they are not expected to generate further economic benefits</td>
</tr>
</tbody>
</table>

## Impairment and Derecognition

- Use Cost Model (CM) or Revaluation Model (RM)
  - (CM): Asset carried at cost less accumulated amortization and any accumulated impairment losses
  - (RM): Asset carried at fair value at date of revaluation less any subsequent amortization and subsequent impairment losses