Understanding ASPE

Sections 3240, Share Capital, 3251, Equity and 3610, Capital Transactions
Six questions for private business owners: Share Capital, Equity and Capital Transactions

A better working world begins with better questions. Asking better questions leads to better answers. To help preparers of financial statements with Canadian accounting standards for private enterprises (ASPE) Sections 3240, Share Capital, 3251, Equity, and 3610, Capital Transactions, we've summarized key aspects of the Sections and offer relevant practical considerations for private mid-market companies through answering six commonly asked questions.

1. **What's a capital transaction and what types of transactions are accounted for as such?**

As described in paragraph 3610.02, capital transactions include items such as:

- Changes in capital, including premiums, discounts and expenses relating to the issue, redemption or cancellation of share capital
- Gains or losses:
  - On purchase and resale by a company of its own issued common shares; or
  - On purchase and cancellation by a company of its own issued common shares
- Contributions by owners or others
- Transfers to and from reserves
- Dividend distributions (including stock dividends)
- Taxes arising at the time of changes in shareholder status or share capital transactions

Capital transactions shall be excluded from the determination of net income and shown separately in the statement to which they relate. Paragraph 3856.22 determines whether a transaction involving a financial instrument is a capital transaction.

2. **What components of equity should be separately presented?**

As described in paragraph 3251.05, an enterprise should present separately the following components of equity:

- (a) Retained earnings
- (b) Contributed surplus
- (c) Share capital
- (d) Reserves
- (e) Non-controlling interests
- (f) Other components of equity

In addition, as indicated in paragraph 3251.04, an entity should present separately changes in equity arising from each of the following:

- (a) Net income, showing separately the total amounts attributable to owners of the parent and to non-controlling interests
- (b) Other changes in retained earnings
- (c) Changes in contributed surplus
- (d) Changes in share capital
- (e) Changes in reserves
- (f) Other changes in equity

3. **How are share purchase loans receivable presented?**

As noted in paragraph 3251.10, share purchase loans receivable shall be presented as deductions from shareholders’ equity unless there is substantial evidence that the borrower, not the enterprise, is at risk for any decline in the price of the shares and there is reasonable assurance that the enterprise will collect the full amount of the loan in cash.

4. **With respect to accounting, what happens when a company acquires its own shares?**

In accordance with paragraph 3240.07, when a company acquires its own shares, the shares shall be carried at cost and shown as a deduction from shareholders’ equity until cancelled or resold. Acquired shares that have not yet been cancelled are considered to be issued capital for purposes of the disclosure requirements included below.

As noted in paragraph 3240.16, when a company resells shares it has acquired, any excess of the proceeds over cost shall be credited to contributed surplus; any deficiency shall be charged to contributed surplus to the extent that a previous net excess from resale or cancellation of shares of the same class is included therein, otherwise to retained earnings.
How is the redemption or cancellation of shares accounted for?

Paragraph 3240.11 indicates that when a company redeems its own shares, or cancels its own shares that it has acquired, and the cost of such shares is equal to or greater than their par, stated or assigned value, the cost shall be allocated as follows:

(a) To share capital, in an amount equal to the par, stated or assigned value of the shares

(b) Any excess, to contributed surplus to the extent that contributed surplus was created by a net excess of proceeds over cost on cancellation or resale of shares of the same class

(c) Any excess, to contributed surplus in an amount equal to the pro rata share of the portion of contributed surplus that arose from transactions, other than those in (b) above, in the same class of shares

(d) Any excess, to retained earnings

Further, paragraph 3240.13 notes that when a company redeems its own shares, or cancels its own shares that it has acquired, and the cost of such shares is below their par, stated or assigned value, the cost shall be allocated as follows:

(a) To share capital in an amount equal to the par, stated or assigned value of the shares

(b) The difference, to contributed surplus

In both circumstances, paragraph 3240.14 indicates that the amounts to be allocated to the share capital account are based on the average per-share amount in such account for that class of share at the transaction date.

What are the disclosure requirements with respect to share capital?

The disclosure requirements with respect to share capital are listed in paragraphs 3240.20-3240.22. Disclosure should be made of a company’s issued share capital, including:

(a) The number of shares for each class, giving a brief description and the par value, if any

(b) Dividend rates on preference shares and whether or not they are cumulative

(c) The redemption price of redeemable shares

(d) The number of shares and the amount received or receivable that is attributable to capital for each class

(e) Arrears of dividends for cumulative preference shares

In addition, paragraph 3240.22 indicates that disclosure of the details of the transactions during the period should be made, including:

(a) The number of shares of each class issued since the date of the last balance sheet, indicating the value attributed thereto and distinguishing shares issued for cash, shares issued directly or indirectly for services and shares issued directly or indirectly for other considerations

(b) The number of shares of each class redeemed or acquired since the date of the last balance sheet and the consideration given and, when the consideration was other than cash, the nature of the consideration given and the value attributed thereto; and

(c) The number of shares of each class resold since the date of the last balance sheet, indicating the value attributed thereto and distinguishing shares resold for cash, shares resold directly or indirectly for services and shares resold directly or indirectly for other considerations

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