

Accounting Standards for Private Enterprises



October 21, 2010

SME Conference

Accounting Standards for Private Enterprises

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Accounting Standards for Private Enterprises

Agenda

- 1) ASPE Overview and First-time Adoption
- 2) Accounting Policy & Transition Considerations
- 3) Disclosure Considerations
- 4) The Future of ASPE
- 5) Q & A

ASPE Overview

Restructured CICA Handbook

Standards that apply to:

Part I Publicly Accountable Enterprises (IFRS)

Part II Private Enterprises (or can elect to apply IFRS)

Part III NFPOs (or can elect to apply IFRS)

Part IV Pension Plans

Part V All entities before the mandatory
effective date of the relevant parts above

ASPE Overview

Timing

- Standards are finalized and published
- Effective for annual financial statements for fiscal years beginning on or after January 1, 2011
(calendar year-end: 2011, others: fiscal 2012)
- Early adoption permitted
(starting in 2009)

ASPE Overview

Timing *(see appendix B for timeline)*

Calendar Year-end adopting in 2011:

- 2011 annual financial statements to include restated 2010 comparatives
- prepare ASPE opening balance sheet as at January 1, 2010

June year-end adopting in fiscal 2012:

- June 2012 annual financial statements to include restated fiscal 2011 comparatives
- prepare ASPE opening balance sheet as at July 1, 2011

ASPE Overview

First-time Adoption (New HB Section 1500)

- Section 1500 applies when an organization adopts the new standards for the first time
- Only applicable in your first year of applying the new standards

ASPE Overview

Section 1500 Overview

- Retrospective treatment of accounting policy changes
- Only accounting policies resulting from the application of the new standards
- Retrospective treatment results in an opening balance sheet under the new standards (transition date)
- Differences posted to retained earnings in opening balance sheet

ASPE Overview

Section 1500 Overview

- Optional exemptions to retrospective treatment ⁽¹⁾
- Mandatory exceptions to retrospective treatment ⁽¹⁾
- Disclosures that explain how the transition affected the organizations financial statements
- Apply standards in effect at the end of the year of adoption – consistently for opening balance sheet and comparatives

(1) see appendix C to these slides

ASPE Overview

Section 1500 Overview

2011 annual financial statements (calendar year)

- Include opening balance sheet (Jan 1, 2010)
- Disclose the amount of each entry to retained earnings and the reason
- Include reconciliation of 2010 net income to that under new standards
- Provide sufficient detail for users to understand the effect of the transition
- Explain material changes to cash flow statement

ASPE Overview

What's Changed?

EIC Abstracts have been removed

- much of the detailed guidance not appropriate
- however, parts of some EIC Abstracts were embedded in the standards

The guidance carried forward is often much less detailed. For example:

- EIC-142 Revenue arrangements with multiple deliverables: > 8,500 words
- Section 3400 Revenue, paragraph 11: 223 words

ASPE Overview

What's Changed?

Some Accounting Guidelines removed

Accounting Guidelines Retained

- AcG-2 Franchise Fee Revenue
- AcG-14 Disclosure of Guarantees
- AcG-15 Consolidation of VIEs
- AcG-16 Oil & Gas Accounting – Full Cost
- AcG-18 Investment Companies
- AcG-19 Disclosure by Entities Subject to Rate Regulation

ASPE Overview

What's Changed?

Some Accounting Guidelines removed

Accounting guidelines related to financial instruments removed, guidance in new financial instruments standard

- AcG-4 Fees and Costs Associated with Lending Activities (3856.07)
- AcG-12 Transfers of Receivables (3856, App B)
- AcG-13 Hedging Relationships (3856.30-36)

Remaining accounting guidelines not considered to be necessary and have been removed.

ASPE Overview

What's Changed?

Key changes to core standards

Financial Instruments	Internally Generated Intangibles
Subsidiaries	Stock-based compensation
Non-controlling Interests	Impairment of Goodwill
Investments	Asset retirement obligations
Interests in Joint Ventures	Business Combinations
Employee Future Benefits	Disclosure Requirements

ASPE Overview

What's Changed?

Section 1300 *Differential Reporting* removed from new standards

- most options remain as accounting policy choices.
- shareholder approval no longer required.

Current differential reporting options (XFI):

- Subsidiaries, Investments, Interests in Joint Ventures
- Goodwill and Intangible Assets
- Share Capital
- Income Taxes
- Financial Instruments

See appendix D for more details

ASPE Overview

What's Changed?

New Accounting Policy Changes

- Development costs (intangible assets)
 - *expense or capitalize*
- Employee Future Benefits (defined benefit plans)
 - *immediate recognition or defer and amortize*
- Compound Financial Liabilities
 - *set equity component at zero*

See appendix D for more details

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Accounting Policy & Transition Considerations

“One size does not necessarily fit all”

“Strategies reflect the different needs of users...”

“Different cost-benefit considerations...”

XFI GAAP as the benchmark

Accounting Policy & Transition Considerations

Defined Benefit Plans including IPPs

- Immediate recognition, or
- Deferral and amortization

Considerations:

- cost savings (triennial actuarial review?)
- relative quality of information
- income volatility
- debt covenants

Accounting Policy & Transition Considerations

Financial Instruments:

- Amortized historic cost, or
- Fair value (item by item)

Considerations:

- fv adjustments through income (no OCI)
- income volatility
- quality of information regarding investment portfolios

Accounting Policy & Transition Considerations

Hedging:

- Critical terms match, or
- No hedge accounting

Considerations:

- income volatility
- impact on asset costing
- broader opportunities under IFRS?

Accounting Policy & Transition Considerations

Compound Financial Instruments:

- Bifurcate, or
- Account for based on contractual terms

Considerations:

- complexity of bifurcation/upfront costs
- value of “economic information”
- impact on debt covenants

Accounting Policy & Transition Considerations

Balance sheet “cleanup”:

- Cumulative translation account
- Unamortized actuarial gains/losses for defined benefit plans

Considerations:

- opportunity to “sweep” to R/E on transition
- eliminate having future “bad news” through P&L
- accelerate recognition in equity of “good news”

Accounting Policy & Transition Considerations

Qualifying development costs:

- Capitalize, or
- Expense

Considerations:

- simplified accounting
- “under-recognition” of value of R&D
- must treat all projects the same
- income statement volatility

Accounting Policy & Transition Considerations

Income Taxes:

- Taxes payable, or
- Amortization (deferral)

Considerations:

- balance sheet recognition of future tax assets and liabilities
- valuing future tax assets (impairment)
- income statement volatility
- disclosure requirements

Accounting Policy & Transition Considerations

Property, Plant & Equipment

- Historic cost, or
- Fair value election on transition (one time)

Considerations:

- borrowing capacity
- future “drags” on income
 - depreciation/amortization
 - impairment charges
- tax implications (current and future)

Accounting Policy & Transition Considerations

Intercorporate investments

- Consolidation, equity or cost

Considerations:

- user needs (security positions)
- presentation of the “economic entity”
- income tax filing
- multiple f/s?

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Disclosure Considerations

- **Disclosure supplement**
- **Required disclosures significantly reduced**
 - AcSB focused on what users want in PE financial statements and cost/benefit
 - Users generally can ask follow-up questions
- **PE should consider materiality of required disclosures**

Disclosure Considerations

- **Required disclosures are not necessarily sufficient!**
- **Section 1400 requirement for “fair presentation”**
 - “sufficient information about transactions or events having an effect on the entity's financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect”

Disclosure Considerations

- **Do disclosures provide a fair presentation to users?**
- **What additional information will users be looking for?**
 - Discuss with users
 - Who are the current and potential users?
- **Do the disclosures enable users to consider whether to request more information?**
- **Is it more efficient to include additional information in the financial statements than to have to respond to questions?**
- **Does providing additional disclosures enhance credibility with users? What is this worth?**

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The Future of ASPE

- **PEAC established to advise AcSB on evolution of ASPE**
 - Associates
- **Issues with current standards**
 - Accounting for defined benefit plans on adoption of ASPE
 - Hedge accounting
- **New issues**
 - Subsequent events
- **Topics not addressed in current standards**
 - Agriculture

The Future of ASPE

- **ASPE will evolve – not frozen**
 - Needs of PE sector not static
 - Not a “second class” set of standards – now or in the future
- **IASB is key source of new thinking in accounting standards**
 - PEAC will review all new IFRSs
 - Would new IFRS be an improvement for ASPE (possibly with modifications)?
- **Concern from some constituents over maintaining knowledge of two GAAPs**
- **Focus will continue to be on needs of PE sector**

The Future of ASPE

- **New standards to be introduced in batches on a two year cycle**
 - First batch expected late 2012, effective 1.1.2014 (?)
 - Exposure drafts to be issued individually
- **Annual improvements for minor clarifications, if necessary**
- **PEAC agendas and meeting notes available on AcSB website www.acsbcanda.org**
- **FEIC Private Company Committee**

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Presenters



KPMG ENTERPRISE

Robert G. (Bob) Young, FCA

Partner, Risk Management and Professional Practice

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Bob is the Partner-in-Charge of Risk Management and Professional Practice for KPMG Enterprise. Prior to assuming this national role in 2003, Bob was the Partner-in-Charge of the Assurance practice in KPMG's Edmonton office. As an Assurance partner, he provided Audit and Review Engagement services to a wide variety of clients—ranging from owner-managed businesses, to large petrochemical installations. Bob also served numerous clients in the public sector, including municipalities, universities, and hospitals.

Bob has always had a strong interest in professional development and professional practice matters. He served as a sessional lecturer in accounting at the University of Alberta before joining the Student Education Committee of the Institute of Chartered Accountants of Alberta (ICAA). He later chaired the ICAA's Practice Review Committee and was elected to the Governing Council in 1993, ultimately serving as President in 1999/2000. After moving to Ontario, Bob continued his service to the profession. He chaired the task force of the Auditing and Assurance Standards Board of the Canadian Institute of Chartered Accountants (CICA), which developed the new standard on terms of engagement. He was subsequently appointed to a 3-year term on the Board. Following the completion of his term, he was asked to join the Advisory Committee, assisting the Accounting Standards Board (AcSB) in developing an accounting model suitable for Canada's private businesses, and was recently appointed to the Committee's successor—the CICA's new Private Enterprise Advisory Committee.

Presenters

Accounting
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AcSB
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Conseil des normes
comptables

Mark Walsh, FCA
Principal, Accounting Standards Board
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Mark Walsh, FCA has been a Principal with the Accounting Standards Board (AcSB) since 2001 and was appointed Chair of the Emerging Issues Committee in April 2004. Prior to joining the AcSB, Mark held senior financial positions with Imperial Oil Limited in Toronto and Calgary.

Mark is a long-time FEI member and past president of Toronto Chapter and of the Committee on Corporate Reporting and a past member of the FEIC Board. He is currently a Trustee and the Treasurer of the Canadian Financial Executives Research Foundation. He was also a member of the Accounting Standards Board from 1998-2001 and of the Emerging Issues Committee from 1988-98.

Mark has been involved in a number of AcSB projects including business combinations, pensions, inventories and joint ventures. He has been heavily involved in the development of accounting standards for private enterprises.

Presenters

The
Finance Group

Gordon Heard, CA,
Principal Advisor, The Finance Group
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Gordon is the Principal Advisor of The Finance Group, which delivers financial management and regulatory advisory services. The Finance Group is currently helping a number of companies with their transitions to IFRS and the new Accounting Standards for Private Enterprises (ASPE).

Gordon is the editor of *IFRS in Canada*, a newsletter providing practical updates on accounting standards for public and private companies. With over 5,000 subscribers across Canada, *IFRS in Canada* is one of the most trusted sources of practical information for professionals in industry (www.IFRSinCanada.com). A new site dedicated to private companies, www.ASPEinCanada.com, is currently in the works.

Gordon has presented practical advice on planning and implementation issues related to IFRS and ASPE at various seminars and speaking engagements across Canada. Gordon also works with the Canadian Institute of Chartered Accountants (CICA) providing input on accounting standard education and communication from the perspective of members in industry.

Gordon co-chairs FEI Canada's Private Company Committee and is a member of FEI Canada's Committee on Corporate Reporting.

Accounting Standards for Private Enterprises

Appendices

A.ASPE resources

B.Timelines

C.First-time adoption: optional exemptions and mandatory exceptions

D.New accounting policy choices

Appendix A – ASPE Resources

Accounting Standards for Private Enterprises

CICA: Guide to Accounting Standards for Private Enterprises

- Summary comparison to current Canadian GAAP (XFI)
- List of current standards compared to new standards

CICA: CA Magazine Article (What's Changed? June 2010)

Links available at:

www.feicanada.org/index/private_company_committee_pcc
(www.feicanada.org, follow the links under “Committees”)

Appendix A – ASPE Resources

Accounting Standards for Private Enterprises

KPMG: Webcast - Accounting Standards for Canada's Private Enterprises

- Transition requirements
- Summary of differences

CICA: CA Magazine Webinar

- Transition issues
- Summary of differences

Links available at:

www.feicanada.org/index/private_company_committee_pcc
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Appendix A – ASPE Resources

Accounting Standards for Private Enterprises

CICA: Canadian Standards in Transition Website

- FAQs
- Resources

CICA: The Standards (!)

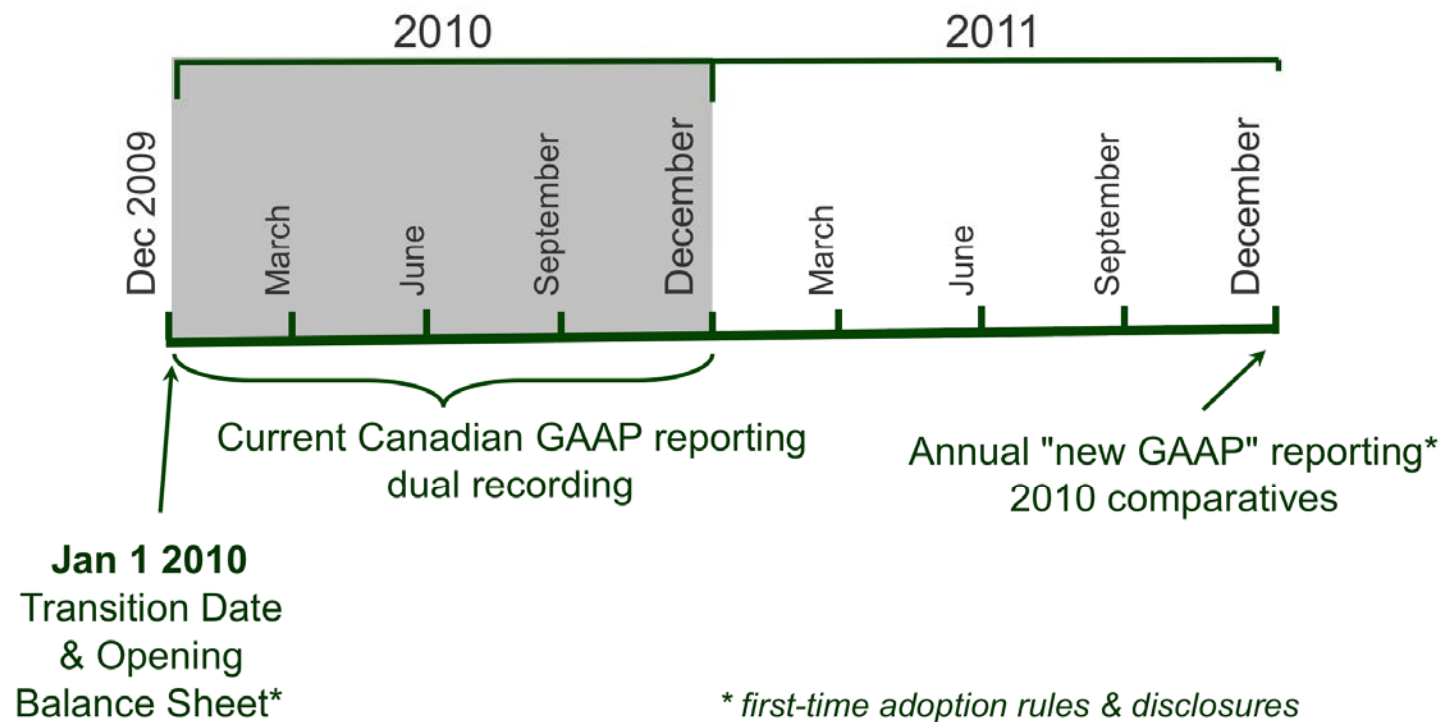
- CICA Handbook – Accounting
- Part II

Links available at:

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(www.feicanada.org, follow the links under “Committees”)

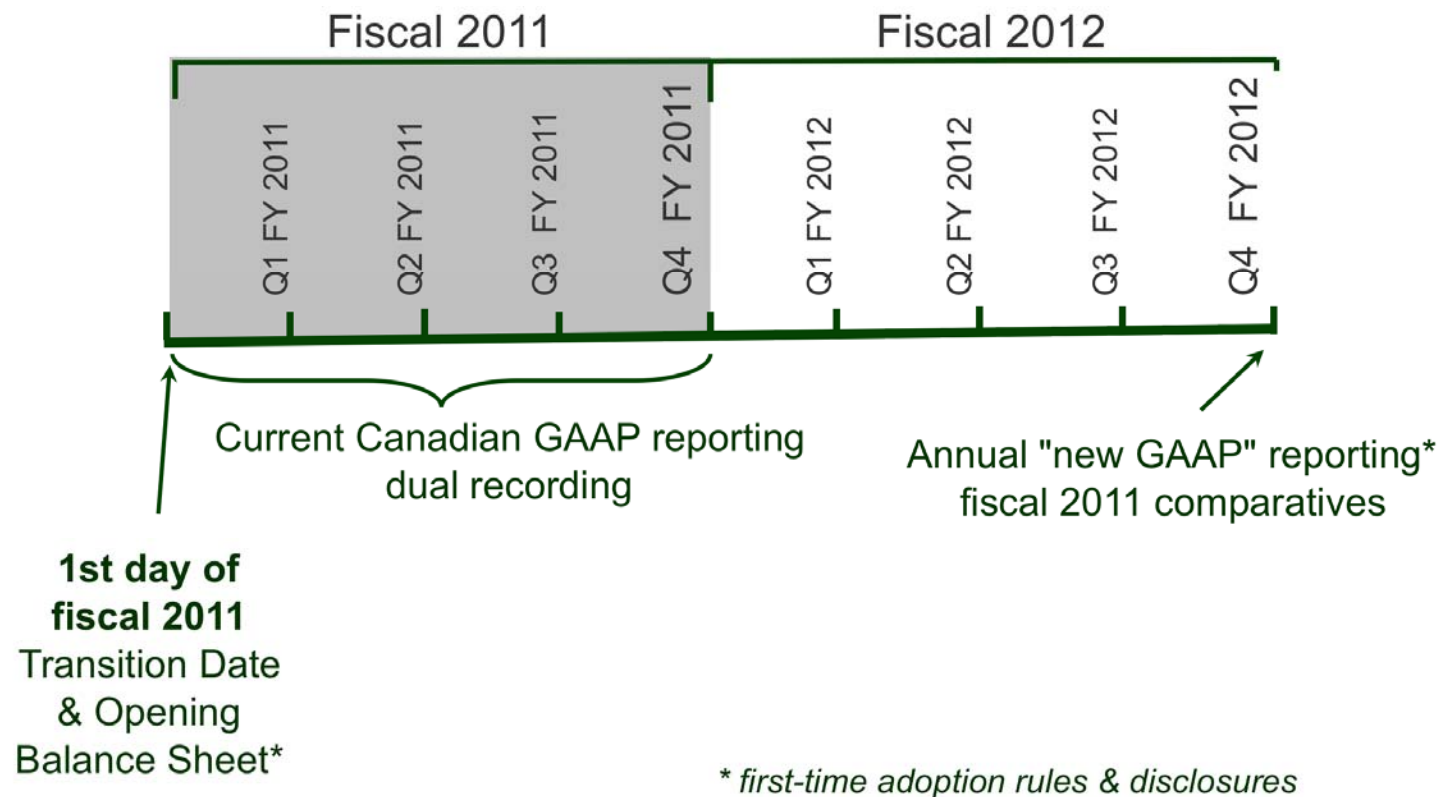
Appendix B – ASPE Timeline

Timeline (calendar year-end)



Appendix B – ASPE Timeline

Timeline (non-calendar year-end)



Appendix C – First-time Adoption

8 Optional Exemptions (to retrospective treatment)

- a) Business combinations
- b) Fair value (as deemed cost of PP&E)
- c) Employee future benefits
- d) Cumulative translation differences
- e) Financial instruments
- f) Stock-based compensation
- g) Asset retirement obligations
- h) Related party transactions

Appendix C – First-time Adoption

Optional Exemptions (to retrospective treatment)

- a) Business combinations (*1500.10-11*)
 - apply changes prospectively from transition date
 - therefore not restating prior business combinations
 - may choose to apply prospectively from any date
- b) Fair value as deemed cost of PP&E (*1500.12-13*)
 - use fair value as deemed opening cost at transition date
 - option available by individual asset
 - may also use a previous fair value measurement as deemed cost at the measurement date

Appendix C – First-time Adoption

Optional Exemptions (to retrospective treatment)

- c) Employee future benefits *(1500.14-16)*
 - recognize all cumulative actuarial gains or losses in retained earnings at transition date
 - recognize all unrecognized past service costs in retained earnings at transition date
- d) Cumulative translation differences *(1500.17-18)*
 - deem cumulative translation differences (CTA) as zero at the transition date
 - gain or loss of future disposal of foreign operation would exclude the amount eliminated on transition

Appendix C – First-time Adoption

Optional Exemptions (to retrospective treatment)

- e) Financial instruments(1500.19-21)
 - under the new standards, financial instruments must be designated to be measured at fair value on initial recognition
 - optional exemption allows existing financial instruments to be designated to be measured at fair value at the transition date
- f) Stock-based compensation (1500.22-23)
 - may elect not to apply changes to compensation granted or issued prior to the transition date
 - disclosure requirements still apply

Appendix C – First-time Adoption

Optional Exemptions (to retrospective treatment)

- g) Asset retirement obligations *(1500.24)*
 - measure obligation consistent with HB 3110 as at the transition date
 - amount included in asset determined at transition date
- h) Related party transactions *(1500.25)*
 - apply measurement prospectively from transition date
 - no change in new standards, therefore not applicable if currently applying Canadian GAAP

Appendix C – First-time Adoption

4 Mandatory Exceptions (to retrospective treatment)

- a) Derecognition of financial assets/liabilities
- b) Hedge accounting
- c) Estimates
- d) Non-controlling interests

Appendix C – First-time Adoption

Mandatory Exceptions (to retrospective treatment)

- a) Derecognition of financial assets/liabilities (1500.27-28)
 - apply derecognition requirements prospectively (don't recognize instruments previously derecognized)
 - may apply retrospectively provided required information is available
- b) Hedge accounting (1500.29-30)
 - may not retrospectively designate hedges
 - hedges retained only if eligible under new standards

Appendix C – First-time Adoption

Mandatory Exceptions (to retrospective treatment)

- c) Estimates *(1500.31-33)*
 - estimates used in preparing opening balance sheet must be consistent with previous estimates
 - reflect information available at the transition date
- d) Non-controlling interests *(1500.34)*
 - apply differences prospectively from transition date
 - change in ownership, loss of control, non-controlling interests in a deficit balance
 - applied retrospectively if business combinations section is applied retrospectively

Appendix D – Accounting Policy Choices

Past Differential Reporting Options

Subsidiaries *1590.15*

- choice to:
 - consolidate;
 - account for using equity method; or
 - account for using cost method
- must use same method for all subsidiaries
- If a subsidiary's equity securities are traded in an active market:
 - may not use cost method
 - may measure at fair value

Appendix D – Accounting Policy Choices

Past Differential Reporting Options

Investments (significant influence) 3051.05

- choice to account for using:
 - ~ equity method; or
 - ~ cost method
- must use same method for all
- If an investee's equity securities are traded in an active market:
 - ~ may not use cost method
 - ~ may measure at fair value

Appendix D – Accounting Policy Choices

Past Differential Reporting Options

Interests in Joint Ventures *3055.17*

- choice to account for using:
 - ~ proportionate consolidation method;
 - ~ equity method; or
 - ~ cost method
- must use same method for all joint ventures

Appendix D – Accounting Policy Choices

Past Differential Reporting Options

Goodwill and Intangible Assets 3064.65 and 72

- Goodwill and intangible assets not subject to amortization are tested for impairment only:
 - ~ *“whenever events or changes in circumstances indicate that...carrying amount...may exceed fair value”*
(examples for intangibles in 3064.10, for goodwill in 3064.73)
- No longer stated as an option

Appendix D – Accounting Policy Choices

Past Differential Reporting Options

Share Capital 3240.20

- Disclosure requirement only for issued share capital
- No longer stated as an option

Income Taxes 3465.03

- Account for income taxes using either
 - ~ the taxes payable method; or
 - ~ the future income taxes method

Appendix D – Accounting Policy Choices

Past Differential Reporting Options

Financial Instruments 3856.23

- Preferred shares issued in tax planning arrangements
 - ~ Now must classify as equity (no longer a choice)
 - ~ Present at par, stated or assigned value
 - ~ Suitable description indicating redeemable at the holder's option
 - ~ Balance sheet disclosure of total redemption amount

Appendix D – Accounting Policy Choices

New Accounting Policy Choices

Development Costs (intangible assets) 3064.40

- Account for expenditures on internally generated intangible assets during the development phase:
 - ~ expense as incurred
 - ~ capitalize as an intangible asset (if criteria in 3064.41 met)
- Apply choice consistently to all development costs

Appendix D – Accounting Policy Choices

New Accounting Policy Choices

Employee Future Benefits 3461.026

- Account for defined benefit plans using either:
 - ~ immediate recognition approach (3461.027-040)
 - ~ deferral and amortization approach (3461.027-040)
- Apply choice consistently to all defined benefit plans

Compound financial liabilities 3856.22

- Equity component may be set at zero, entire proceeds of issue are allocated to the liability component