



Canadian Private Companies – Financial Statement Disclosures and Access to Credit

KPMG ENTERPRISE

AUDIT • TAX • ADVISORY

FEI Toronto: Introducing our panelists



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**John Forester, CFO
NUCAP Industries Ltd.**





Financial Statement Disclosures and Access to Credit *“It’s a Matter of Trust”*

Accounting Standards for Private Enterprises

Objectives of the Accounting Standards Board

Conceptual model for financial statement disclosures:

- Creditors are the most frequent users
- Users have access to additional information
- Three more important categories of disclosures:
 - Accounting policies
 - Risks and uncertainties
 - Unusual events

Accounting Standards for Private Enterprises

Fair Presentation – what does it mean?

- Applying Generally Accepted Accounting Principles
- Providing sufficient information about transactions or events . . . that are of such size, nature and incidence that their disclosure is necessary to understand that effect (the “stand-back” test)

Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Required Disclosures

Accounts Receivable

- ***The carrying amount of impaired accounts receivable and the amount of any allowance for impairment.***
- ***The exposures of accounts receivable to risk and how they arise, including concentrations of risk (credit risk, currency risk, interest rate risk, liquidity risk, market risk, other price risk)***

Inventories

- ***The amount of inventories recognized as an expense during the period, i.e. cost of goods sold***

Property, Plant & Equipment

- ***A description of impaired long-lived assets, i.e. long-lived assets whose cost is not recoverable, including the facts and circumstances leading to the impairment***
- ***The amount of impairment loss on property, plant & equipment included in income***

Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Required Disclosures

Trade Accounts Payable

- ***The amounts payable at the end of the period in respect of government remittances***

Long-term Debt

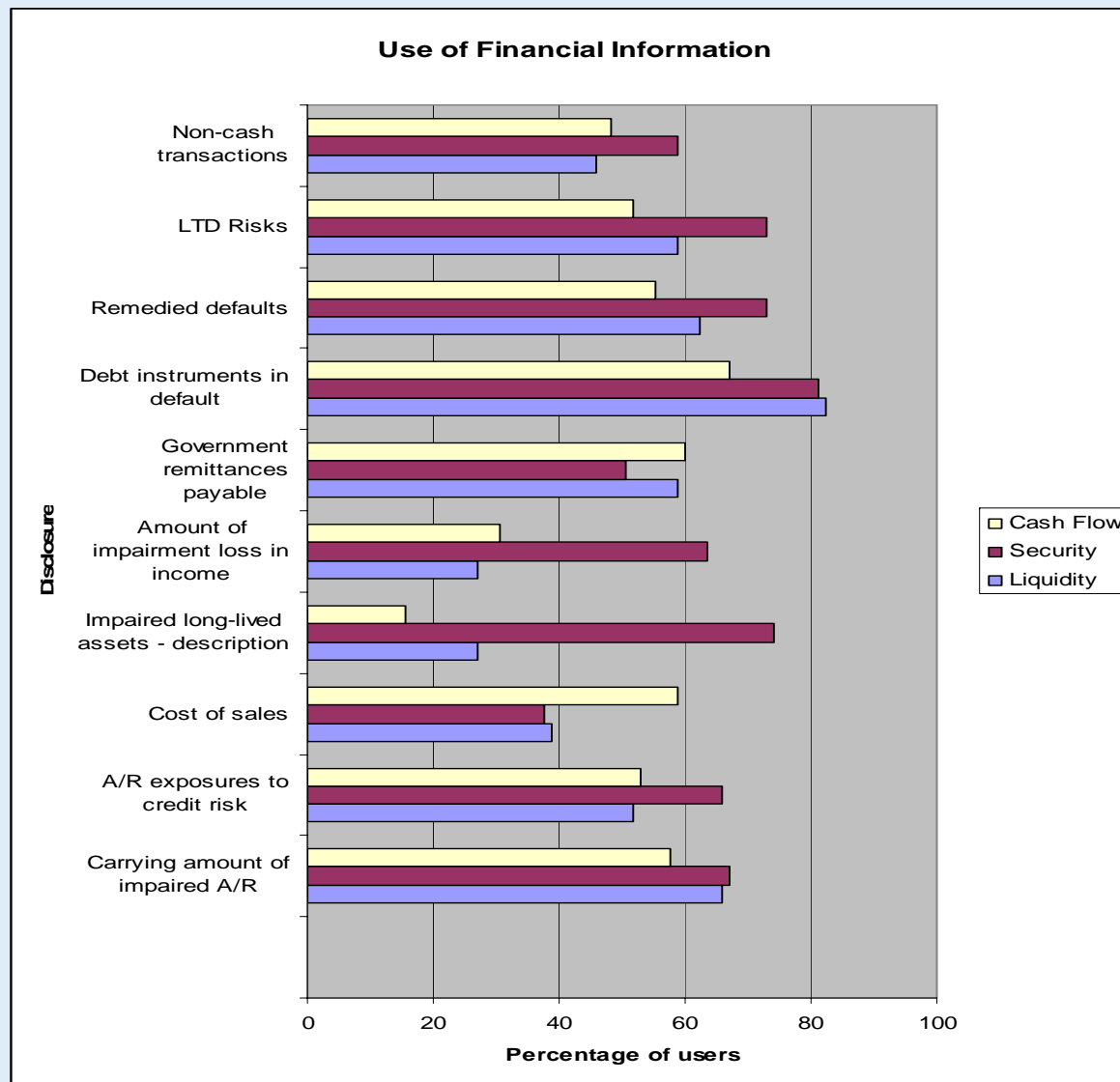
- ***Any debt instrument in default or breach of any term or covenant that would permit a lender to demand accelerated repayment.***
- ***Whether any default was remedied or the terms of the liability were renegotiated before the financial statements were completed.***
- ***The exposures of long-term debt to risk and how they arise (credit risk, currency risk, interest rate risk, liquidity risk, market risk, other price risk)***

Cash Flows

- ***Investing and financing transactions that do not require the use of cash or cash equivalents, including all relevant information***

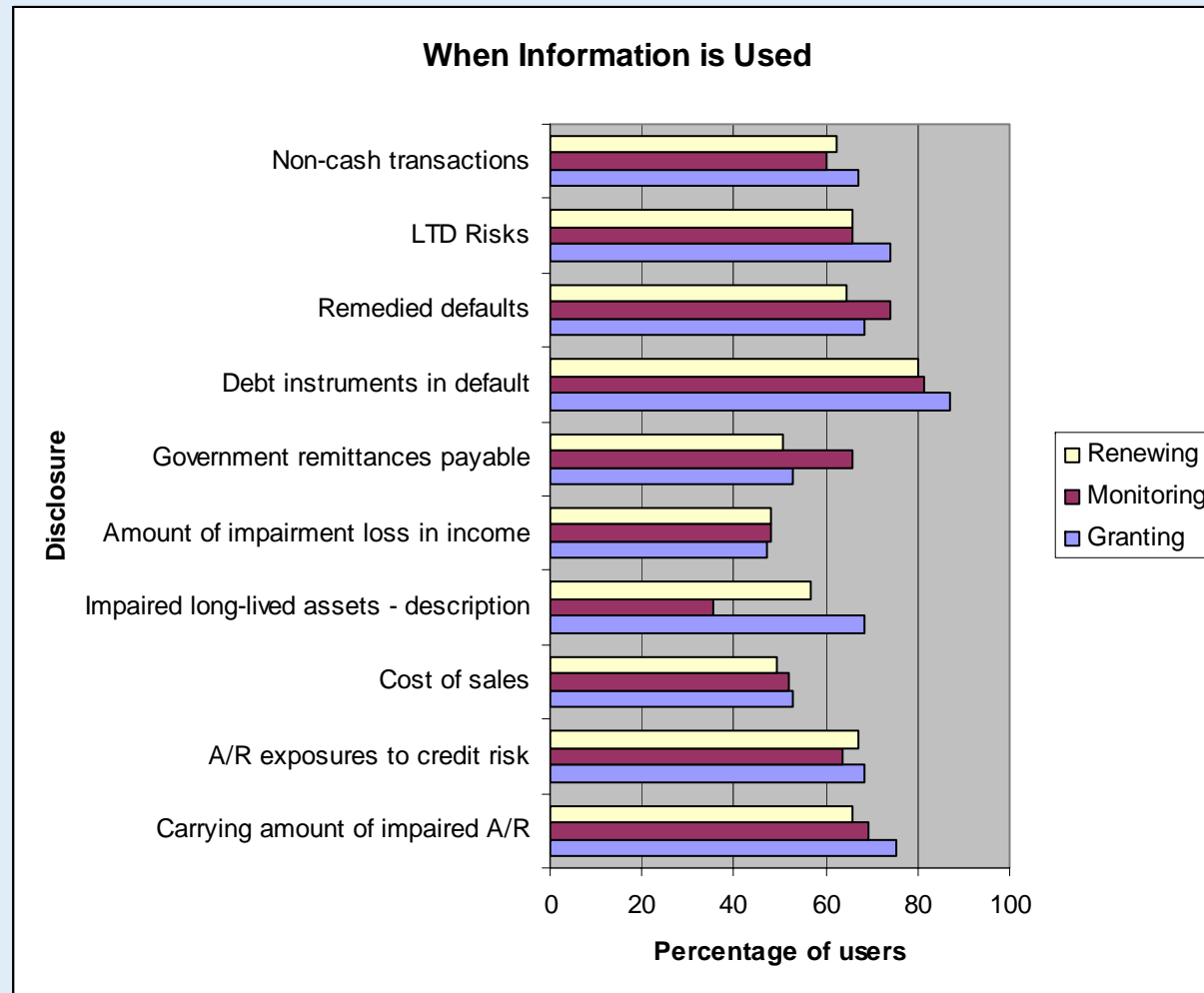
Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Required Disclosures



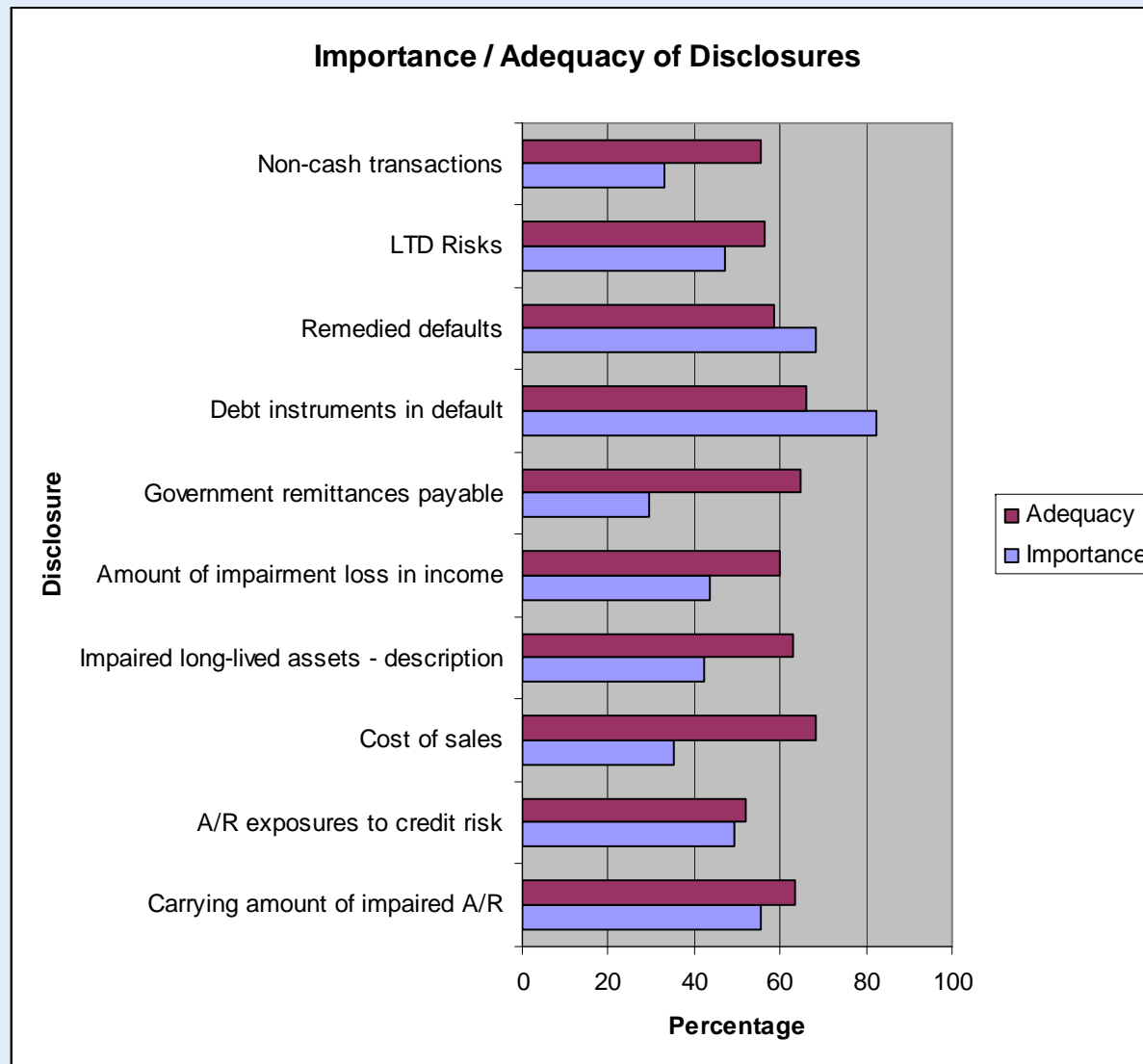
Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Required Disclosures



Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Required Disclosures



Panel Question

Of the required disclosures surveyed, which ones do you believe are particularly useful / less useful to users of private company financial statements?

Why?

Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Possible Additional Disclosures

Accounts Receivable

- ***The ageing of accounts receivable, i.e. a maturity analysis.***

Inventories

- ***The amount of inventories whose cost exceeds net realizable value.***
- ***The circumstances resulting in a provision for impairment or the subsequent reversal of a write-down of inventories.***

Property, Plant & Equipment

- ***The fair value of property, plant & equipment.***
- ***The estimated salvage value or disposal value of plant and equipment at the end of its estimated useful life.***

Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Possible Additional Disclosures

Trade Accounts Payable

- ***The ageing of accounts payable, i.e. a maturity analysis.***

Long-term Debt

- ***The priority of security positions on collateral.***
- ***The fair value of debt instruments.***
- ***A sensitivity analysis for each type of market risk to which the entity is exposed.***

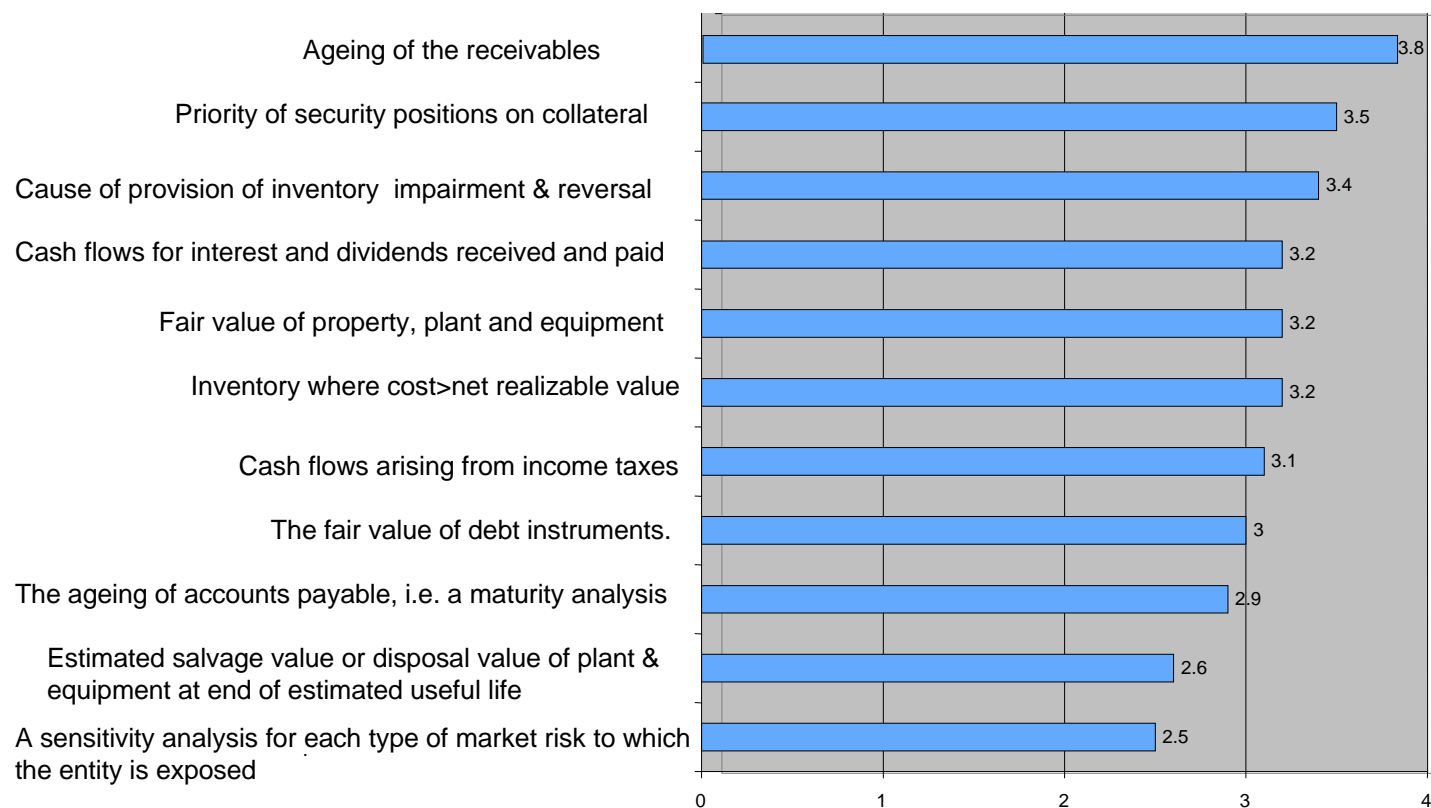
Cash Flows

- ***Cash flows for interest and dividends received and paid.***
- ***Cash flows arising from income taxes.***

Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Possible Additional Disclosures

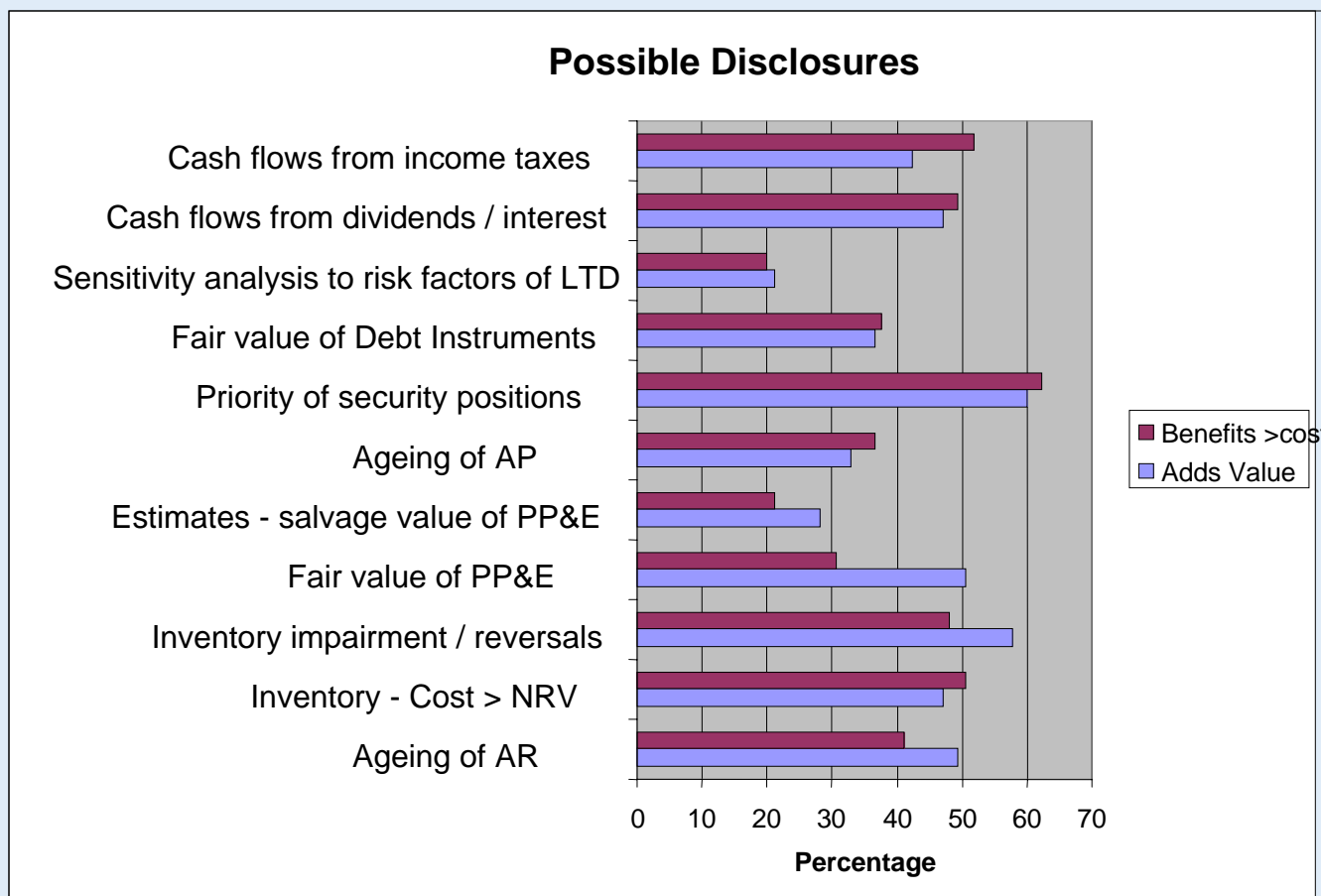
Value of additional disclosures for accessing credit



■ Value for accessing credit (5=Very valuable, 1=Not at all valuable)

Applying Accounting Standards for Private Enterprises

FEI Survey of Selected Possible Additional Disclosures



Panel Question

Of the possible additional disclosures surveyed, which ones do you believe would be particularly useful / less useful to users of private company financial statements?

Would the benefit of the disclosure warrant the cost involved to provide the information?

Panel Question

Fair Presentation – the “Stand-Back” Test

What are some examples of situations that you believe *“are of such size, nature and incidence that their disclosure is necessary to understand that effect”* in order to provide fair presentation.

Panel Question

EBITDA – A Non-GAAP Performance Measure

EBITDA is a term that underlies many lending agreements. It is not a defined accounting term which precludes its presentation in financial statements.

Should companies be entitled to measure and disclose EBITDA in their financial statements?

What would be the benefits and challenges?

Panel Question Management Discussion and Analysis

Public companies are required to provide MD&A to assist the users of their financial statements in understanding significant changes in the business, risk factors, etc.

Panel Question Management Discussion and Analysis

Principles

- enable readers to view the entity through management's eyes;
- supplement and complement the information in the financial statements;
- be complete, fair and balanced, and provide information that is material to the decision-making needs of users;
- have a forward-looking orientation;
- focus on management's strategy for generating value over time; and
- be understandable, relevant, and comparable.

Canadian Performance Reporting Board

Panel Question Management Discussion and Analysis

Disclosure Framework

- Core businesses and strategy
- Key performance drivers
- Capability to deliver results
- Results and outlook
- Risk

Panel Question Management Discussion and Analysis

Would a framework for an MD&A model for private companies be useful to borrowers and lenders in “putting some color on the canvas” to facilitate access to capital?

Accounting Standards for Private Enterprises

The Future?

- Contentious areas
- Transition balance sheet
- IFRS

Accounting Standards for Private Enterprises

Contentious Areas not Simplified / Amended

- Stock-based compensation
- Lease accounting
- Classification of Callable Debt

Panel Views?

Accounting Standards for Private Enterprises

The Transition Balance Sheet Elections

- Fair value items of property, plant and equipment
- Write-off certain unrecognized balances
 - Unamortized gains & losses on defined benefit pension plans
 - Cumulative translation account

Panel Views?

Accounting Standards for Private Enterprises

The Future

- ASPE – maintain a “made in Canada” solution”
- IFRS
- IFRS for SMEs
- Other

Panel Views?

Assurance Standards Change Here Too!

“Fair Presentation” vs. “Compliance” Frameworks

- Today
 - Contract
 - Legislation
 - Regulation
- Tomorrow
 - Unrestricted

Panel Views?

Executive Dialogue: Open Floor

Q&A

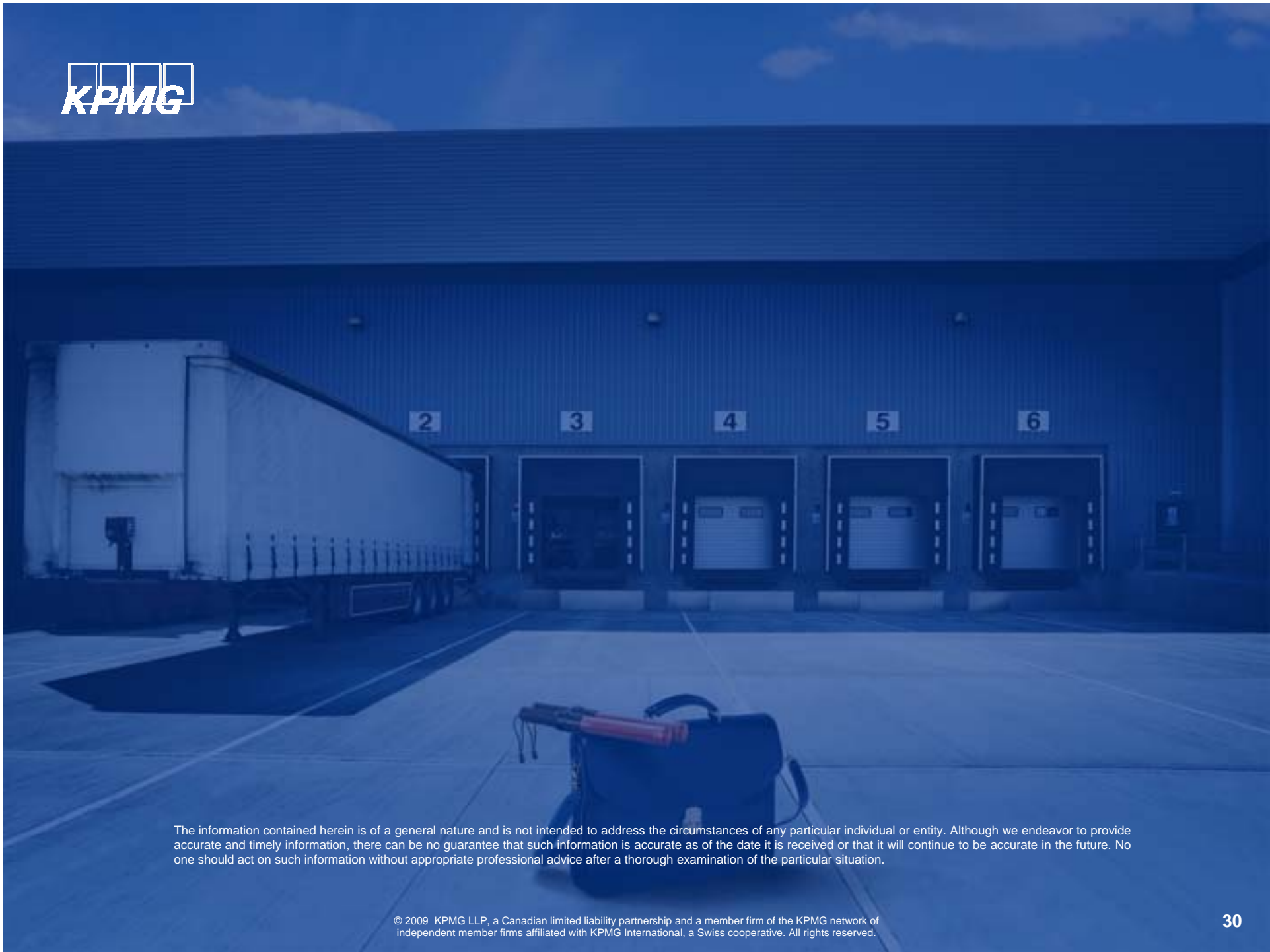
Closing Remarks



**Dennis Fortnum, Partner
National Leader, KPMG Enterprise**

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Please take a few moments to provide your comments on the evaluation forms and submit to our event team upon your departure.



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