

ASSURANCE AND ACCOUNTING

CANADIAN GAAP – IFRS COMPARISON SERIES

Issue 15: IAS 1 Presentation Of Financial Statements

Both IFRS and Canadian GAAP are principle based frameworks, and from a conceptual standpoint, many of the general principles are the same. However, the application of those general principles in IFRS can be significantly different from Canadian GAAP. Therefore, to understand the magnitude of the differences between IFRS and Canadian GAAP, it is essential to look beyond the general principles and look at the detailed guidance provided in the standards. This is our fifteenth issue in a series of publications, which will provide detailed information on the key differences between IFRS and Canadian GAAP.

This issue will focus on the significant differences between current Canadian GAAP requirements for financial statement presentation and the IFRS requirements. These differences relate mainly to:

- Presentation of financial position and equity;
- Presentation of comprehensive income;
- Presentation of cash flows;
- Other Presentation Issues; and
- First Time Adoption Issues related to Presentation of Financial Statements.

Be advised that this publication is a guide to the differences between Canadian GAAP and IFRS and is not meant to be a comprehensive manual. Please contact a BDO representative for specific details and information.

Introduction

The requirements of financial statement structure and content are more prescribed under IFRS than Canadian GAAP; however, fundamentally Canadian GAAP and IAS 1 have the same requirements for financial statement presentation. A complete set of financial statements include a statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cashflows and appropriate note disclosure. However, it is the detailed requirements that create differences in the presentation of financial statements. One thing to note is that when looking at examples of IFRS statements, many come from Europe and as such, have European conventions that create visual differences from Canadian GAAP statements. These European conventions, like the ordering of balance sheet items, are not IFRS specific and as such, it would not be required for Canadian entities to adopt these conventions.

References

IFRS:	IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows
Canadian GAAP:	Section 1000 Financial Statement Concepts Section 1400 General Standards of Financial Statement Presentation Section 1510 Current Assets and Current Liabilities Section 1520 Income Statement Section 1540 Cash Flow Statements



Statement of Financial Position

CANADIAN GAAP	IFRS
<p>Under Canadian GAAP, the balance sheet distinguishes between current and non-current assets and liabilities. Liquidity based presentation is also permitted in specialized industries but not a common practice.</p>	<p>IAS 1 similar to Canadian GAAP allows for a classified, current and non-current statement of financial position, as well as a liquidity based presentation when it provides more reliable and more relevant information to the users. This would be common for financial institutions.</p>
<p>Under Canadian GAAP, there is no minimum content. There is guidance on current vs. long term asset classification, and individual line items of the balance sheet.</p>	<p>At a minimum, the statement of financial position shall include line items that present the following amounts:</p> <ul style="list-style-type: none"> (a) Property, plant and equipment; (b) Investment property; (c) Intangible assets; (d) Financial assets (excluding amounts shown under (e), (h) and (i)); (e) Investments accounted for using the equity method; (f) Biological assets; (g) Inventories; (h) Trade and other receivables; (i) Cash and cash equivalents; (j) The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with <u>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</u>; (k) Trade and other payables; (l) Provisions; (m) Financial liabilities (excluding amounts shown under (k) and (l)); (n) Liabilities and assets for current tax, as defined in <u>IAS 12 Income Taxes</u>; (o) Deferred tax liabilities and deferred tax assets, as defined in <u>IAS 12</u>; (p) Liabilities included in disposal groups classified as held for sale in accordance with <u>IFRS 5</u>; (q) Non-controlling interests, presented within equity; and (r) Issued capital and reserves attributable to owners of the parent.
<p>Some specific presentation differences are:</p> <ul style="list-style-type: none"> • Under Canadian GAAP, events subsequent to year end may be considered when determining the classification of demand loans or loans with covenant violations. This results in more loans being classified as long term compared to IFRS; and • Future tax assets and liabilities are classified as current or long term based on the nature of the underlying assets and liabilities creating the temporary difference. If not related to a specific asset or liability classification is based on expected timing of reversal of the difference. 	<p>Under IFRS, the presentation differences are:</p> <ul style="list-style-type: none"> • Only conditions that exist at the year end date are considered when classifying demand loans or loans with covenant violations. This would result in more loans being classified as current; and • Deferred tax assets and liabilities are always classified as non-current.

Under Canadian GAAP, an entity shall correct material prior period errors retrospectively, after they are identified, in the first set of financial statements completed by:

- (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Reclassifications do not constitute an error and require no restatement.

IAS 1 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This would result in three balance sheets being presented for reclassifications and restatements.

Statement of Changes in Equity

CANADIAN GAAP

An entity is required to present separately changes in equity for the period arising from each of the following:

- (a) Net income;
- (b) Other comprehensive income;
- (c) Other changes in retained earnings;
- (d) Changes in contributed surplus;
- (e) Changes in share capital; and
- (f) Changes in reserves.

Also, an enterprise should present separately the following components of equity:

- (a) Retained earnings;
- (b) Accumulated other comprehensive income, showing each component of revenue, expense, gain and loss that is recognized in other comprehensive income for each component of other comprehensive income and the total of those components at the end of the period;
- (c) The total of (a) and (b);
- (d) Contributed surplus;
- (e) Share capital; and
- (f) Reserves.

Canadian GAAP requires disclosure of the details of the changes in equity and an entity can present additionally a statement of changes in equity, like IFRS, or disclose the details only in the notes to the financial statements, unlike IFRS.

IFRS

IAS 1 requires an entity to present a statement of changes in equity showing in the statement:

- (a) Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) For each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with [IAS 8](#); and
- (c) For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - (i) Profit or loss;
 - (ii) Each item of other comprehensive income; and
 - (iii) Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

IFRS requires that the reconciliation of the carrying amount at the beginning and ending of the reporting period for each component of equity on the face of the financial statements.

Presentation of Income Statement

CANADIAN GAAP	IFRS
<p>Under Canadian GAAP, in arriving at the income or loss before discontinued operations and extraordinary items, the income statement should distinguish at least the following items:</p> <ul style="list-style-type: none"> (a) Revenue recognized; (b) Income from investments, disclosing income from: <ul style="list-style-type: none"> (i) Companies subject to significant influence; (ii) Other affiliated companies; and (iii) All other investments. (c) Finance income from direct financing or sales-type leases; (d) Income from operating leases; (e) Government assistance credited direct to income; (f) The amount charged for amortization of property, plant and equipment; (g) The amount charged for amortization of intangible assets subject to amortization; (h) The amount of goodwill impairment losses; (i) The amount charged for amortization of property under a capital lease; (j) The amount of exchange gain or loss included in net income; (k) Interest expense, segregating interest on indebtedness initially incurred for a term of more than one year and other interest; (l) Interest expense related to capital lease obligations; (m) Revenue, expenses, gains or losses resulting from items that do not have all of the characteristics of extraordinary items but result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities of the entity; (n) Income taxes; and (o) Non-controlling interest in income. 	<p>Under IAS 1, as a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:</p> <ul style="list-style-type: none"> (a) Revenue; (b) Finance costs; (c) Share of the profit or loss of associates and joint ventures accounted for using the equity method; (d) Tax expense; (e) A single amount comprising the total of: <ul style="list-style-type: none"> (i) The post-tax profit or loss of discontinued operations; and (ii) The post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation. (f) Profit or loss; (g) Each component of other comprehensive income classified by nature (excluding amounts in (h)); (h) Share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and (i) Total comprehensive income. <p>Also, an entity shall disclose the following items in the statement of comprehensive income as allocations of profit or loss for the period:</p> <ul style="list-style-type: none"> (a) Profit or loss for the period attributable to: <ul style="list-style-type: none"> (i) Non-controlling interests; and (ii) Owners of the parent. (b) Total comprehensive income for the period attributable to: <ul style="list-style-type: none"> (i) Non-controlling interests, and (ii) Owners of the parent.
<p>Canadian GAAP has no such presentation requirements for expense classification.</p>	<p>Under IFRS, expenses must be classified as either by nature or by function. There is no mixing of classification permitted. If an entity chooses to classify by function then additional disclosures relating to amortization, depreciation, and staff costs must be disclosed.</p>
<p>Under Canadian GAAP, there are three presentation alternatives for the statement of comprehensive income. It can be presented as an independent statement, as part of the income statement, or as part of the statement of equity.</p>	<p>Under IFRS, the statement of comprehensive income can either be presented as an independent statement or as part of the income statement. There are two presentation alternatives.</p>
<p>Canadian GAAP permits the classification of income or expense as an extraordinary item if specific criteria are met.</p>	<p>IFRS prohibits the presentation of any items of income or expense as extraordinary.</p>

Unlike IFRSs, separate presentation in the income statement is permitted for unusual items. Unusual items generally result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities of the entity.	The presentation or disclosure of items of income or expense as "unusual items" should be given only for very significant items when necessary for fair presentation. This is likely to be an uncommon occurrence compared to Canadian GAAP. Per the Basis of Conclusions to IAS 1, most line items would be considered to be operating activities even if they occur irregularly or infrequently or are unusual in amount.
Unlike IFRS, it is common to see interest income and interest expense netted on the income statement.	Under IAS 1, netting of income and expenses is prohibited unless specifically permitted by another standard. This is a common occurrence under Canadian GAAP for items such as interest income and interest expense.

Statement of Cash Flows

CANADIAN GAAP	IFRS
<p>Under Canadian GAAP:</p> <ul style="list-style-type: none"> Interest and dividends (received and paid) included in the income statement must be classified as operating activities; and Interest and dividends paid and charged to retained earnings must be presented as financing activities. <p>Under Canadian GAAP, interest income and interest expense is commonly seen as supplementary cash flow information and not classified as an activity on the statement.</p>	<p>Unlike Canadian GAAP, there is an accounting policy choice of classifying interest and dividends:</p> <ul style="list-style-type: none"> Interest and dividends received as operating or investing activities; and Interest and dividends paid as operating or financing activities. <p>Also, interest income and expense is added back / deducted from the cash flow statement. There is choice in terms of operating, investing, or financing classification as long as it is consistent from period to period.</p>
Under Canadian GAAP, the <u>aggregate</u> cash flows arising from each disposal of a business unit should be presented separately and classified as cash flows from investing activities.	Under IAS 7, cash flow information attributable to operating, investing, and financing activities of discontinued operations is required to be disclosed.
Under current Canadian GAAP, cash flows arising from all changes in ownership interests in a subsidiary, regardless of whether the transactions results in obtaining or losing control of the subsidiary, are classified as investing activities. This is based on the current Section 1581 Business Combinations Standard. This difference will be eliminated upon adoption of the new Section 1582 for Business Combinations.	Unlike Canadian GAAP, cash flows arising from changes in ownership interests in a subsidiary are classified as investing or financing activities depending on whether control is retained. If control is obtained or lost, then the transaction is classified as an investing activity; otherwise as a financing activity.
Under Canadian GAAP, the working capital movement generally includes more accounts including cash payments made to and on behalf of employees and accruals.	Under IFRS, the composition of the changes in working capital refers to only inventories, trade and other payables and receivables. Items such as provisions and employee benefits are presented outside of the working capital movement.

Other Presentation Issues

Under IFRS, there will be an increase in note disclosure. This is primarily because there is more judgement required under IFRS so disclosure is necessary to help users understand how an entity accounts for its transactions. Some of the required disclosures that we do not typically see under Canadian GAAP are:

- The measurement basis used in preparing the financial statements (historical cost, fair value);
- Whether the financial statements are of an individual entity or a group of entities;
- The domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business);
- The name of the parent and the ultimate parent of the group;

- Explicit statement of compliance with IFRS;
- Date of authorization and who authorized;
- Functional and presentation currency;
- Use of Estimates; and
- Use of Judgments.

IFRS also requires that the notes are presented in a systematic order and be cross referenced chronologically to the financial statements. This allows for a more logical flow of the financial statements. This is different than the presentation of notes under Canadian GAAP.

First Time Adoption Issues Related to Presentation of Financial Statements

The first annual IFRS financial statements should be presented in accordance with the presentation and disclosure requirements of IAS and other relevant standards and interpretations. IFRS 1 does not provide an entity with relief from these presentation and disclosure requirements.

To comply with IAS 1, an entity's first annual IFRS financial statements would have to include at least three statements of financial position (as at January 1, 2010, December 31, 2010 and December 31, 2011), two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity (for the periods ended December 31, 2010 and December 31, 2011) and related notes, including comparative information for all periods presented. Any historical summaries for periods before the first period for which they present full comparative information do not have to comply with the recognition and measurement requirements of IFRS. The entity should disclose that the information is not prepared in accordance with IFRS, and include a narrative explanation of any major differences to IFRS. No quantitative disclosure is required for any differences.

Please refer to our *IFRS 1 Publication: IFRS 1 – In a Canadian Context*, that details the specific requirements for financial statement presentation for first time adopters.

Future of Financial Statement Presentation

There is ongoing joint project with the IASB on Financial Statement. The purpose is to establish a standard that will guide the organization and presentation of information in the financial statements.

The boards developed three objectives for financial statement presentation which state that information should be presented in the financial statements in a manner that:

- Portrays a cohesive financial picture of an entity's activities;
- Disaggregates information so that it is useful in predicting an entity's future cash flows; and
- Helps users assess an entity's liquidity and financial flexibility.

The Exposure Draft for the changes is expected to be issued in April 2010, a final standard in 2011 with an effective date for 2013. This means that for Canadian entities who adopt IFRS, there will be two changes for financial statement presentation – one at changeover, and the second one for the revised standard expected in 2013.

Conclusion

In general, the principles relating to the presentation of financial statements under Canadian GAAP and IFRS have a lot of similarities. However, when looking at the details of each standard there are some significant differences which an entity needs to be aware of to evaluate the impact of moving to IFRS on the presentation of financial statements.

If you require further guidance on financial statement presentation under IFRS or any other IFRS information or reference sources, please contact your local BDO Canada office or visit www.bdo.ca/ifrs.

The information in this publication is current as of January 1st, 2010.

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