

ASSURANCE AND ACCOUNTING

CANADIAN GAAP – IFRS

COMPARISON SERIES

Issue 18: Interim Financial Statements

Both International Financial Reporting Standards (IFRSs) 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 IFRSs can be significantly different from Canadian GAAP. Therefore, to understand the magnitude of the differences between IFRSs 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 eighteenth issue in a series of publications, which will provide detailed information on the key differences between IFRSs and Canadian GAAP.

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

- The contents;
- Minimum disclosures;
- Period required to be presented;
- Recognition and Measurement; and
- Restatement of Previously Reported Interim Periods.

The publication will also cover a few key issues relating to presentation of interim financial statements in accordance with IFRSs for the first time.

References

IFRS: IAS 1 Presentation of Financial Statements, IAS 34 Interim Financial Reporting.
Canadian GAAP: Section 1751 Interim 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 Canada LLP representative for specific details and information.



Introduction

IFRS does not specifically mandate that an entity adopting IFRS must publish IFRS compliant interim financial statements. However, a number of Canadian entities are required by governments, securities regulators, or stock exchanges to publish interim financial reports. IAS 34 applies if an entity is required to or elects to publish an interim financial report in accordance with IFRS. As a result a Canadian entity with a calendar year-end balance date that needs to prepare interim financial statements, like many Canadian public companies, the first time they report under IFRSs will not be at December 2011 but will be for the first quarter of 2011 (assuming not early adopting).

For first time adopters it is not only important to understand the requirements of IAS 34, Interim Financial Reporting (IAS 34). An entity must also understand how IAS 34 interacts with IAS 1 Presentation of Financial Statement (IAS 1) and the issues related to first time adoption.

Contents

The focus and intention of both IFRSs and Canadian GAAP with respect to interim financial reporting is to provide an update on the latest complete set of annual financial statements. Accordingly, the standards require disclosures focused on new activities, events, and circumstances and do not duplicate information previously reported.

CANADIAN GAAP	IFRS
<p>Interim financial statements should include, at a minimum, the following components:</p> <ul style="list-style-type: none"> • Balance sheet; • Income statement; • Statement of retained earnings; • Cash flow statement; and • Notes to financial statements. <p>Comprehensive income and its components are also presented, in a statement displayed with the same prominence as the other statements.</p>	<p>Entities are permitted to present interim IFRS financial statements that:</p> <ul style="list-style-type: none"> • Comply with all IFRSs (commonly referred to full IFRS financial statements); or • Are condensed financial statements with selected explanatory notes in accordance with IAS 34.
	<p>An interim financial report shall include, at a minimum, the following components:</p> <ul style="list-style-type: none"> • A condensed statement of financial position; • A condensed statement of comprehensive income, presented as either; • A condensed single statement; or • A condensed separate income statement and a condensed statement of comprehensive income; • A condensed statement of changes in equity; • A condensed statement of cash flows; and • Selected explanatory notes. <p>If not preparing full financial statements, then the statements must be referred to as condensed. However, other than the change in title it would be rare for the actual statements to contain less than what is in the annual statements.</p> <p>The notes supplementing the statements are limited – the presentation package taken together is condensed.</p>

Form and Content

CANADIAN GAAP	IFRS
<p>An entity's interim financial statements should include, at a minimum, each of:</p> <ul style="list-style-type: none"> • The headings and subtotals included in its most recent annual financial statements; • The line items required by other Sections in annual financial statements; and • Selected disclosures (see below). 	<p>If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements must follow IAS 1 presentation requirements for a complete set of financial statements and IAS 34, for specific interim reporting recognition and measurement requirements.</p> <ul style="list-style-type: none"> • If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of: • The headings and subtotals that were included in its most recent annual financial statements; and • Selected explanatory notes (see below). <p>Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading.</p>
<p>Basic and diluted earnings per share should be presented on the face of the income statement for an interim period when an enterprise is required to present this information in its annual financial statements.</p>	<p>Like Canadian GAAP, an entity must present basic and diluted earnings per share information when the entity is within the scope of IAS 33 Earnings per Share.</p> <p>In addition, specific guidance is provided for an entity that presents the components of profit or loss in a separate income statement in accordance with IAS 1. In those presentation cases the entity is required to also present its interim condensed basic and diluted earnings per share information in that separate statement.</p>

Minimum Disclosure

Both IFRS and Canadian GAAP have the underlying assumption that a user of an entity's interim financial statements has access to the most recent annual financial statements of that entity. Therefore, interim disclosures for both Canadian GAAP and IFRS are those that are useful in understanding any changes in the entity's financial position and its performance since the end of the most recently completed annual report.

CANADIAN GAAP	IFRS
<p>The interim financial statements should present fairly in accordance with generally accepted accounting principles the financial position, results of operations and cash flows of an entity for the interim period (that is, represent faithfully the substance of transactions and other events in accordance with the elements of financial statements).</p> <p>As a minimum, an entity should include the following information in its interim financial statements, when applicable:</p> <ul style="list-style-type: none"> • A statement advising of any disclosures not conforming in all respects to the requirements of generally accepted accounting principles for annual financial statements. 	<p>An entity shall include certain minimum information on a financial year-to-date basis, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report.</p> <p>Canadian GAAP is more prescriptive with respect to the disclosures that are required in the interim financial statements. Like Canadian GAAP, IFRS requires a statement that the same accounting policies are followed in the interim financial statements as compared with the most recent annual financial statements. However, if those policies or methods have been changed, a statement is required to describe the nature and effect of the change.</p>

CANADIAN GAAP	IFRS
<ul style="list-style-type: none"> The interim financial statements should include a statement that they follow the same accounting policies and methods of their application as the most recent annual financial statements, except for: <ul style="list-style-type: none"> Any policy or method that has been changed; Any new policy or method that has been adopted for new events or circumstances; Any accounting method applied to address circumstances that affect the preparation of the interim financial statements; or A special accounting method applied to address temporary inventory costing fluctuations. <p>In addition to IFRS reporting requirements, Canadian GAAP also prescribes specific disclosures for:</p> <ul style="list-style-type: none"> Annual financial statement disclosures in relation to plans to exit an activity, plans for restructuring and integration related to a business combination, financial reorganizations and spin-offs, impairment write-downs, the disposal of non-monetary long-lived assets; and extraordinary items; Accounting for stock-based compensation where an entity has not applied the fair value based method. Pro forma net income and earnings per share disclosures as required by Section 3870 Stock-based Compensation and other Stock-based Payments should be disclosed for each interim period; and The total amount of defined benefit cost recognized. 	<p>On first time adoption the statement that accounting policies are the same cannot be made (see later in the publication).</p> <p>In addition to Canadian GAAP requirements IFRS specifically prescribes disclosures for:</p> <ul style="list-style-type: none"> The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence; Issuances, repurchases, and repayments of debt and equity securities; and Dividends paid (aggregate or per share) separately for ordinary shares and other shares.
	<p>Although not required to comply with IAS 1, an entity must still consider some of the basic principles of IAS 1 namely:</p> <ul style="list-style-type: none"> Fair presentation and compliance with IFRSs; Going concern; Accrual basis of accounting; Consistency of presentation; Materiality and aggregation; Offsetting; and Comparative information.
<p>Examples of disclosures required by Section 1751 include the following:</p> <ul style="list-style-type: none"> Changes in the level of commitments for the purchase of capital assets; Any debt default or any breach of a debt covenant that has not been corrected subsequently ; and Related party transactions not in the normal course of operations. 	<p>Similar to Canadian GAAP, IFRSs provides a list of examples of items that would be disclosed. These include:</p> <ul style="list-style-type: none"> A write down of inventory or a reversal of a previous write down; Impairment of PPE or intangibles or a reversal of a previous impairment; Acquisition or disposal of PPE; Litigation settlements; Correction of prior period errors; Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; and All related party transactions.

Periods for Which Interim Financial Statements are Required to be Presented

Both IFRS and Canadian GAAP have very similar requirements with respect to which period statements of financial position, comprehensive income and changes in equity need to be presented for in the interim financial statements. Both also encourage entities whose business is highly seasonal to consider reporting financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period.

CANADIAN GAAP	IFRS
Interim financial statements should include cash flow statements for the current interim period and cumulatively for the current fiscal year-to-date, with comparative statements for the comparable interim periods (current and year-to-date) of the immediately preceding fiscal year.	The Statement of Cash Flows in the interim financial statements should include the cumulative result for the current year-to-date and the comparable year-to-date of immediately preceding year. There is no IFRS requirement to provide a statement of cash flows for the current interim period. However, regulators may still require this to be included in interim financial statements.

Recognition and Measurement

Canadian GAAP and IFRS share a common approach to the recognition and measurement philosophy, however, some minor differences exist with respect to application guidance provided. Both standards provide a number of examples for applying the recognition and measurement principles. However, IFRS also provides guidance on Interim financial reporting in hyperinflationary economies and also IFRIC 10 – Interim Financial Reporting and Impairment provides specific guidance about how impairment requirements of IAS 36 Impairment of Assets interact with IAS 34.

First Time Adoption of IFRS and Interim Reporting Issues

There are a number of issues relating to preparing interim financial statements for the first time in accordance with IFRSs. IAS 34, IAS 1 nor IFRS 1 deal specifically with interim financial statements prepared prior to the first annual IFRS financial statements. We highlight a selection of some of the issues here.

With respect to preparation and applying IFRS IAS 1 requires a statement of compliance with IFRS in the notes to the financial statements. Most interpretations are that this statement can only be made if all IFRS standards and interpretations have been complied with. If condensed statements are prepared, not all disclosures required by IFRS have been included in the financial statements, therefore, this statement of compliance cannot be made. However, a statement of compliance with IAS 34 should be made.

As highlighted above, interim reporting is based on the assumption that anyone reading the interim report will have access to the most recent annual financial statements. However, the most recent annual financial statements were prepared using a different GAAP (i.e. Canadian GAAP). How does the basic assumption of interim reporting work, when the most recent annual financial statements are prepared using a different GAAP? We believe that generally an entity will need to prepare interim financial statements that are closer to, if not actually are, full IFRS Financial Statements. The guiding principle in determining the level of detail for the disclosures is that disclosures should be those that are useful in understanding the changes in financial position and performance since the last annual reporting date.

As highlighted above, IAS 34 requires disclosures of material adjustments to the financial statements. Therefore, an entity should provide reconciliations similar to IFRS 1 requirements. IFRS 1 requires reconciliations of previous GAAP to IFRS in the first annual financial statements. The reconciliations must provide sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. These would include a reconciliation of:

- Its equity under previous GAAP at the end of the comparable interim period to its equity under IFRS at that date;
- Its comprehensive income under previous GAAP for that comparable period (current and year-to-date) to its comprehensive income under IFRS for that period;
- Its equity under previous GAAP at date of transition and end of the latest period in the entity's most recent annual financial statements to its equity under IFRS at that date; and
- Its total comprehensive income under previous GAAP for latest period in the entity's most recent annual financial statements to its comprehensive income under IFRS for that period.

A 2011 first time adopter with a calendar year end would have to provide the following reconciliations in its 2011 quarterly financial statements based on the requirements of IFRS 1.

1 ST QUARTER 2011	2 ND QUARTER 2011	3 RD QUARTER 2011
<ul style="list-style-type: none"> • A reconciliation of its equity at March 31, 2010 	<ul style="list-style-type: none"> • A reconciliation of its equity at June 30, 2010 	<ul style="list-style-type: none"> • A reconciliation of its equity at September 30, 2010
<ul style="list-style-type: none"> • Reconciliation of equity at January 1, 2010 		
<ul style="list-style-type: none"> • Reconciliation of equity at December 31, 2010 		
<ul style="list-style-type: none"> • A reconciliation to its total comprehensive income for the three months ended March 31, 2010 	<ul style="list-style-type: none"> • A reconciliation to its total comprehensive for the three months ended June 30, 2010 and the six months ended June 30, 2010 	<ul style="list-style-type: none"> • A reconciliation to its total comprehensive for the three months ended September 30, 2010 and the nine months ended September 30, 2010
A reconciliation of total comprehensive income for year ended December 31, 2010		

In addition to the reconciliations and all significant accounting policies, all relevant IFRS 1 exemptions and elections should be disclosed and an entity must also ensure that all IAS 34 disclosures are included.

As a result of the above disclosures entity's should expect their interim financial statements to be significantly longer than under Canadian GAAP.

A common question is whether an entity can change its accounting policy decisions and IFRS 1 decisions made in interim financial statements. IFRS standards allow this to occur and as a result the entity is not locked into its decisions until its first annual financial statements are issued. However, if changes are made, the entity would have to restate previously issued quarters.

The first quarter IFRS financial statements are due shortly after the 2010 annual statements are due for filing. Given the fact that disclosure requirements will be extensive and comparatives will need to be presented – proper planning is essential.

Conclusion

In general, the principles relating to the presentation of interim financial statements under Canadian GAAP and IFRSs have a lot of similarities. However, when looking at the details of preparing interim financial statements using a different accounting basis there are a number of issues that need to be resolved, especially in the year of adoption. Given the fact that disclosure requirements will be extensive, including comparative information and reconciliations proper planning is essential.

If you require further guidance on interim 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 February 26th, 2010.

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