

ASSURANCE AND ACCOUNTING

PRIVATE ENTERPRISES: DECISIONS TO MAKE ON THE ROAD TO NEW STANDARDS

Are you trying to decide whether you should adopt International Financial Reporting Standards or Accounting Standards for Private Enterprises?

You are going to adopt Accounting Standards for Private Enterprises: are you questioning whether you should adopt the standards early? (i.e. before the required date of January 1, 2011).

Are you wondering if there are any decisions to make or any discussions to have with your BDO advisor now to make the transition to Accounting Standards for Private Enterprises easier?

If you answered yes to any of these questions, then this publication is for you. BDO Canada LLP was involved in the development of the Accounting Standards for Private Enterprises (ASPE) and our firm voiced our opinion on your behalf throughout the development process of the new ASPE. Now that the Standards are finalized, you must make a number of choices as you move to a new set of Standards and we want to help make this transition as easy as possible for you. We have considered your options and potential questions. This publication lays out the pros and cons of your various alternatives and explains which decisions you should be making now. With this guidance in hand, we believe you will make more informed choices on the transition to the Accounting Standards for Private Enterprises.

Which GAAP Should You Adopt – International Financial Reporting Standards (IFRS) or Accounting Standards for Private Enterprises (ASPE)?

You may want to adopt International Financial Reporting Standards if you:

- Have foreign lenders that require IFRS financial statements;
- Have lenders or shareholders, such as pension funds or venture capital funds, that prefer IFRS;
- Have a foreign parent company or subsidiaries that already report under IFRS;
- You have any intention of going public down the road or are facing a future possible sale to a public company;
- Want to report under the same standards as competitors that are publicly accountable and will be reporting under IFRS; or
- Have a desire to be seen by third parties (such as current and prospective customers) as being similar or equal to public companies



You may want to adopt Accounting Standards for Private Enterprises if you:

- Have few users of the financial statements;
- Do not have the resources to make the significant changes that may be required to move to IFRS. ASPE is not significantly different from current Canadian accounting Standards;
- Like to see changes in accounting standards less often. The last few years have resulted in constant change in accounting standards; the Accounting Standards Board has promised to make changes to ASPE less often (every 1 to 2 years);
- Want to see less disclosure in the financial statements. There is less disclosure in ASPE (approximately 600 disclosures) versus IFRS (approximately 3000 disclosures);
- Want to keep your audit / review engagement costs down. Costs should be lower than if you were reporting under IFRS since there are fewer disclosures;
- Like the simpler financial instrument model (i.e. accounting for loans, accounts receivable, derivatives etc.) than the model in use under IFRS; or
- Are interested in having a lot more accounting policy choices (consolidated versus non-consolidated financial statements, taxes payable method versus future income taxes payable method, simplified model for accounting for defined benefit plans etc.)

Why Adopt the Accounting Standards for Private Enterprises Early?

Private enterprises will be required to adopt either IFRS or ASPE for periods beginning on or after January 1, 2011. You may want to adopt ASPE early if:

- Your entity is a new entity. It doesn't make sense to adopt current Canadian Accounting Standards then have to switch to ASPE in 2011;
- You want to take advantage of the significant reductions in disclosures that are available in certain areas, for example:
 - Stock-based compensation (approx. 60%);
 - Employee future benefits (approx. 75%);
 - Inventory (approx. 80%);
 - Investment companies (approx 73%);
 - Leases (approx. 64%);
 - Transfers of receivables (approx. 60%);
 - Capital disclosures (100%);
 - Standards issued but not yet effective (100%);
 - Asset retirement obligations (approx. 50%)
- You want to make immediate use of one-time transitional adjustments such as:
 - The property, plant and equipment bump up to fair value; or
 - Zeroing out of unamortized actuarial gains / losses and / or cumulative translation adjustments accounts

- You want to access some of the changes in the new model such as:
 - Recording investments in shares quoted in an active market at fair value;
 - Measuring certain financial instruments at their fair values;
 - Accounting for the conversion option in convertible debt at \$Nil;
 - Applying the simplified defined benefit plan measurement model;
 - Adopting the alternative presentation for callable debt;
 - Using of the easier-to-access hedge accounting model;
- Your enterprise could not access differential reporting because you could not obtain unanimous shareholder consent. Under ASPE, you can freely adopt many accounting policy choices that were previously available under differential reporting

Why NOT Adopt the Accounting Standards for Private Enterprises Early?

- You will have to apply the new business combinations / consolidations Sections before your publicly-accountable counterparts;
- If, for example, you adopted early for your December 31, 2009 year end, you will have to apply transitional adjustments at January 1, 2008 (the transition date) and:
 - Determining estimates of certain amounts at the date of transition may be difficult because you are not allowed to use hindsight. For example, you would have to reassess impairment for loans receivable under the new impairment model, but you couldn't take into account events that occurred after that date (e.g. two years later one party went bankrupt);
 - If you want to take advantage of the one-time fair value bump for certain property, plant and equipment, you will need to determine the fair value of those items at January 1, 2008. Due to the economic downturn that came into full swing during 2008, you may end up recording impairments on those same capital assets at the end of 2008; and
 - You will have to apply the new business combinations / consolidations Sections to 2009 AND 2008 business combinations
- If you did not present a statement of cash flow previously, you will have to do so early. Statements of cash flow must always be presented under ASPE

You Don't Plan to Adopt ASPE Until 2011; What Do You Need to Think About / Discuss With Your BDO Advisor Now?

- Your private enterprise is required to adopt either IFRS or ASPE for your year end beginning on or after January 1, 2011. If your year end is December 31, your date of transition will be January 1, 2010, which has already passed. You should talk to your BDO advisor now about which transitional elections you should use at the transition date. There are optional elections for the following on first-time adoption:
 - Business Combinations;
 - Fair Value;
 - Employee Future Benefits;
 - Cumulative Translation Adjustments;
 - Financial Instruments;
 - Stock-Based Compensation and Other Stock-based Payments;
 - Asset Retirement Obligations; and
 - Related Party Transactions

These elections may make the transition to ASPE easier and more cost effective for your entity by exempting your entity from having to apply certain accounting requirements retroactively;

- Your organization should also determine if it needs to obtain any information at the transition date to make adjustments. For example, if you make use of the one-time property, plant and equipment election to write up land to its fair value, you will need to know the fair value at January 1, 2010. You can begin obtaining that data now;

- The business combinations, consolidations and non-controlling interests Standards in ASPE are the same as the new comparable Standards in current Canadian GAAP. If you are going to have a business combination in 2010, you may want to adopt the current handbook Sections 1582, 1601 and 1602 on Business Combinations, Consolidations and Non-Controlling Interests early so you do not have to go back and remeasure those business combinations using the ASPE standards when you issue financial statements in 2011. It will save time and costs; and
- Lastly, you may want to talk to your BDO advisor about the effect any changes in accounting policies will have for income tax purposes

Conclusion

Change is here for your private enterprise. You have a lot of decisions to make on your road to International Financial Reporting Standards or Accounting Standards for Private Enterprises and your BDO Advisor wants to make that transition as easy as possible for your enterprise. Contact your BDO advisor with any concerns or questions about your transition into the new world of financial reporting for private enterprises.

The information in this publication is current as of July 15th, 2010.

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