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New accounting standards

The Optimizer



New accounting Standards for Private Enterprises In Canada

Faced with an increasingly demanding economic environment, it is vital that private enterprises in Canada have the opportunity to use accounting standards that respond to their needs and the needs of those who use their financial statements.

*Ron Salole, Vice-President, Standards,
Canadian Institute of Chartered Accountants*

These 'made in Canada' standards for private enterprises are effective for fiscal years beginning on or after January 1, 2011. Such enterprises also have the option to adopt International Financial Reporting Standards (IFRSs).

All private enterprises can adopt the new standards. A private enterprise is a profit-oriented entity that is not a publicly accountable enterprise (e.g. a public company or a not-for-profit organization) nor an entity in the public sector. There is no size restriction and there are no qualifiers such as unanimous consent from shareholders. The standards are principles-based and use the existing *CICA Handbook – Accounting* as a starting point.

Key Changes

Important changes have been made to simplify the process and better meet the needs of the marketplace. Some key changes are as follows:

Simplification in Measurement

An area of simplification that will affect private enterprises is financial instruments. A new standard was developed that requires most financial instruments to be initially measured at fair value and with the subsequently measurement usually at cost (or amortized cost). Only equities quoted in an active market and free-standing derivatives are required to be measured at fair value. However, there is an option to measure other financial instruments at fair value if a private enterprise wishes. The standard also covers other important aspects of accounting for financial instruments, such as the ability to reverse previously recorded impairments.

Other simplifications were also made to the accounting for asset retirement obligations, employee future benefits, development costs, goodwill, and stock-based compensation.

Retaining Choices

Differential reporting options currently available to private enterprises are retained. Private enterprises continue to have a choice on how to account for investments in subsidiaries, significantly-influenced investees, and joint ventures. They will also continue to have the choice of whether to use the future income taxes method or taxes payable method for income taxes. What is different is that unanimous consent of the shareholders is no longer required.

Disclosure Requirements

The change in required note disclosure depends on whether the private enterprise was previously using differential reporting. If not, the reduction in disclosure will be significant but if differential reporting was previously being used the reduction will be much less, with some new disclosures added.

Emerging Issues Committee (EIC) Abstracts

In creating a principles based financial reporting system, it was decided that it would not be appropriate to include the type of detailed guidance contained in the EIC Abstracts, so they have not been carried forward to the new standards. However, parts of the 29 Abstracts were considered to contain significant guidance that was important for private enterprises and this guidance has been incorporated into the standards.

First-time Adoption

To ensure that the entity's first set of financial statements prepared under the new standards is transparent for users and comparable over all periods presented, the overall approach is retroactive application. This means that the financial statements have to be restated in accordance with the new standards and presented as if the entity has always applied these standards. However, in some cases retrospective application may lead to costs that outweigh the benefits. There are consequently some exemptions from the general retrospective application requirement for certain specific areas.

There are also specific prohibitions to the general retrospective application requirement. These are for areas where changes would involve hindsight.

In order for the user to be able to understand the changes when the new standards are adopted, there is a requirement for the financial statements to show the comparative year prepared on the same basis. Disclosure of changes to the opening retained earnings and a reconciliation of the prior year net income is also required.

SF Partnership, LLP is pleased to welcome our clients to learn about these new accounting standards for private enterprises on Thursday September 16, 2010, at On The Park Events and Conference Centre, 1095 Leslie Street, Toronto from 8:30 a.m. to 10:00 a.m. Please contact Nattalea Francis-Campbell if you are interested in attending at nfrancis@sfgroup.ca.



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