

Canada  
Private Company Services

Related links:  
[Canadian GAAP at a crossroads](#)  
[Focus on private companies](#)  
[Subscribe to Privately Speaking](#)

Contacts:  
**Peter Brown**  
National leader, private company services  
416-601-6660

**Karen Higgins**  
National director, accounting services  
416-601-6238

## Privately speaking

### Special edition: Accounting Standards for Private Enterprises (ASPE)

#### Getting ready for a new financial reporting framework

Are you a decent driver? Many of us pride ourselves on logging hundreds of kilometers a week without incident. But imagine if our government one day required Canadians to drive on the left side of the road. What would the implications be? How would you manage the change?

For more than a century, companies in Canada have operated according to Generally Accepted Accounting Principles, or GAAP. But in 2011, private companies will face change, and it's prudent for every private-company CEO and CFO to understand the implications of the new standards.

I invite you to review the attached articles, which provide private company leaders with some decision criteria to help manage the transition to the new standards. Please reach out to me or Karen Higgins, national director, accounting services, if you have any questions or would like to learn more.

Sincerely,

Peter Brown  
National leader, private company services

#### Accounting standards for private enterprises

The new accounting standards apply to all entities that meet the Accounting Standards Board's (AcSB)'s definition of a non-publicly accountable enterprise (NPAE). Essentially an NPAE is a profit-oriented entity operating in the private sector that has not issued debt or equity instruments in a public market and is not planning on doing so in the near term. In addition, an NPAE cannot hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

It is important to note that any private enterprise can voluntarily choose to adopt International Financial Reporting Standards (IFRS) instead of Accounting Standards for Private Enterprises (ASPE) as the entity's financial reporting framework. There are many strategic and business reasons governing why a private enterprise may choose to adopt IFRS instead of ASPE, including:

- an impending initial public offering;
- requirements by a parent company or significant investor for IFRS-compliant financial information; and
- a situation in which the specific business activities of the private enterprise warrant a conversion to the IFRS accounting framework.

For more information on the choice available to private enterprises, please refer to Deloitte's Point of View document entitled **Canadian GAAP at a crossroads: Which path should private companies choose?**

#### **Why did the AcSB issue these new standards?**

The AcSB realized that the current accounting standards were, in many cases, designed specifically for public companies and that these standards had become complex over the years. The AcSB acknowledged that the complexity of the standards and the burden of the extensive disclosures required by Canadian GAAP created special challenges for private enterprises. As a result of the AcSB deciding that all publicly accountable enterprises (PAEs) would have to adopt IFRS for fiscal years commencing on or after January 1, 2011, there was a unique opportunity to make significant amendments to existing Canadian GAAP in order to customize the standards specifically for private enterprises and their unique stakeholder needs.

These new standards have been incorporated into the CICA Handbook effective December 2009. The CICA Handbook has now been segregated into five parts, and Accounting Standards for Private Enterprises is contained in Part II of the updated Handbook. If you do not have an electronic subscription to the CICA Handbook, you should contact the **AcSB** for details on how you can obtain a copy of the revised standards.

#### **When do these new standards become applicable?**

The revised standards must be applied for fiscal years commencing on or after January 1, 2011. This is the same deadline for PAEs who have to adopt IFRS. Essentially, this means that fiscal 2010 is the last year that calendar year-end NPAEs will be able to apply current Canadian GAAP; commencing fiscal 2011, NPAEs will have to transition their financial reporting to either ASPE or IFRS.

Early adoption is also permitted. Private enterprises are permitted to adopt these standards as early as fiscal years ending on or after December 31, 2009.

One important matter to note: regardless of whether you choose to early adopt these new standards or wait until adoption is required, these standards must be applied as at the beginning of the comparative year presented in the financial statements.



So, if you wish to pursue early adoption for your December 31, 2009 year-end financial statements, you must apply these standards as of January 1, 2008.

## Implications of the new standards

With a new accounting framework come several financial reporting implications. Here is a summary of the most critical ones.

- The new standards require fewer mandatory **disclosures** and instead place an increased focus on the use of professional judgment in the identification of disclosures required over and above the minimum disclosures
- Accounting Standards for Private Enterprises no longer has a **differential reporting** standard because the accounting principles are solely applicable to private enterprises. However, all of the current differential reporting options currently in Canadian GAAP have been incorporated into the framework as accounting policy choices which can be made by private enterprises.
- Certain complex standards have been **streamlined and simplified**, such as employee benefits and financial instruments. In addition, all of the interpretive guidance contained in the Emerging Issues Committee Abstracts (EIC Abstracts) has been removed, although some of the general concepts from certain EIC Abstracts have been incorporated into the core standards – primarily those relating to revenue recognition, taxes, financial instruments, common control transactions, and leasing.
- These standards contain specific **transitional guidance** that must be applied as of the beginning of the comparative year in the year of adoption. This transitional guidance provides entities with some relief from the general requirement for full retrospective application of the new standards; specifically where certain complex standards may

differ from the standards currently being applied. In addition, the transitional guidance provides some optional elections which may provide entities with some strategic benefits as they move to the new standards.

For more information on the major differences between the new Accounting Standards for Private Enterprises and current Canadian GAAP, please refer to our [newsletter](#) issued September 25, 2009 or watch our December 8, 2009 [webcast](#), New GAAP for Private Enterprises or IFRS (note, you must register for this past webcast event to view its archived presentation.)

## First-time adoption

ASPE has significant similarities to current Canadian GAAP, but there are differences. The basic requirement of the new framework is that the new standards must be applied retrospectively. In order to provide some relief from the retrospective requirements of this new framework, the AcSB has provided some mandatory and some optional exemptions that apply only in the year of adoption. This article provides an overview of Section 1500: *First Time Adoption* and analyzes certain exemptions that a first-time adopter may wish to consider applying and those exemptions with which compliance is mandatory in the year of adoption.

We begin by defining some terms used to describe first-time adoption.

- **Date of transition to accounting standards for private enterprises** — the beginning of the earliest period for which an entity presents full comparative information under accounting standards for private enterprises. For a calendar year end entity which does not early adopt these standards, this will be January 1, 2010 (assuming only one comparative period is presented).
- **First financial statements prepared using accounting standards for private enterprises** — the first set of annual comparative financial statements prepared that are fully in accordance with accounting standards for private enterprises. For a calendar year end entity which does not early adopt these standards, this will be their December 31, 2011 annual financial statements.
- **First-time adopter** — an entity that presents its financial statements in accordance with accounting standards for private enterprises for the first time.
- **Opening balance sheet** — an entity's balance sheet at the date of transition to accounting standards for private enterprises. An entity prepares and presents an opening balance sheet at the date of transition to accounting standards for private enterprises. This opening balance sheet is the starting point for the entity's accounting under accounting standards for private enterprises.

### Basic principles

The first-time adopter must apply the same accounting policies consistently from the opening balance sheet throughout all periods presented in its first financial statements that comply with ASPE to the end of the year of adoption. Therefore, private enterprises need to ensure that the accounting policies that are applicable as of the end of the fiscal year of adoption are applied consistently throughout all periods presented. Potential changes to ASPE

should be carefully monitored to determine what accounting policies will be required to be applied at the end of the year of adoption.

The only exception to the requirement for full retrospective application of the standards is when the first-time adopter has applied an optional exemption or a mandatory exception consistent with Section 1500. Careful analysis of all exemptions and exceptions needs to be performed. Some exemptions may provide some strategic advantages that should be carefully analyzed.

The first-time adopter must recognize all assets and liabilities whose recognition is required by the standards and the first-time adopter does not recognize items as assets or liabilities if the standards do not permit such recognition. Some assets and liabilities may not have been recognized under current Canadian GAAP but they may require recognition under ASPE or vice versa. For example, certain financial assets or financial liabilities may be within the scope of the revised financial instruments standards that were not recognized under the XFI version of the Handbook. These amounts will have to be recorded in the opening balance sheet with a cumulative adjustment to opening retained earnings.

The first-time adopter may reclassify items that it recognized previously as one type of asset, liability or component of equity, but which are recognized as a different type of asset, liability or component of equity under the standards. An entity may have previously issued convertible debt which was bifurcated and the liability portion was presented in liabilities and the equity portion allocated to the holder's conversion option was presented in equity. Section 3856 *Financial Instruments* provides an option to measure the equity component of convertible debt at zero and reflect the entire instrument as a financial liability. Upon adoption, if a private enterprise makes that election, the component previously reflected in equity should be reclassified to liabilities and a cumulative adjustment through retained earnings should be recorded to reflect the measurement differences arising from this reclassification.

The first-time adopter applies the standards in measuring all recognized assets and liabilities. An entity may have previously recorded Asset Retirement Obligations (AROs) on a basis consistent with current Canadian GAAP. As part of the simplification objectives of ASPE, the measurement guidance for AROs has changed. Adjustments to previously recorded AROs may be required to be recorded in the opening balance sheet to reflect the change in measurement guidance.

## Optional exemptions

### **Business combinations**

A first time adopter can elect to not apply Section 1582 to past business combinations (those that closed prior to the opening balance sheet date). This means that business combinations previously accounted for as pooling of interests, reverse acquisitions or as acquisitions do not have to be reassessed under the revised business combinations standards to determine if they would have been characterized differently under the new standards. Section 1582 contains revised business combination accounting guidance and it is mandatorily applicable in Canada no later than fiscal 2011 and there are some significant changes from the current business combination guidance in Section 1581.

If an entity takes this exemption, the entity must apply it to all business combinations that closed prior to the opening balance sheet date. However, there is still some work to do on prior business combinations that were accounted for under prior Canadian GAAP Section 1581. Specifically, there is still a requirement to recognize assets and liabilities that require recognition under ASPE which may not have been recognized previously and to derecognize any assets or liabilities previously recognized that do not meet the definition of an asset or liability under ASPE.

#### **Fair value**

An entity can elect to measure any item classified as property, plant or equipment at fair value on the opening balance sheet date and establish that fair value as the item's deemed cost for subsequent accounting. This may provide an opportunity for entities to increase the recorded carrying value of certain items classified as property, plant and equipment in the opening balance sheet and to record the difference between original cost and fair value as an increase to opening retained earnings.

In addition, if an entity had previously recognized assets and liabilities at fair value on a basis consistent with prior GAAP (for example, the entity applied Section 1625 *Comprehensive Revaluation of Assets and Liabilities* in a prior year when the entity emerged from bankruptcy), the entity is permitted under this exemption to consider the fair value measurement on that date to be the deemed cost of the assets or liabilities as of that date.

#### **Employee future benefits**

Any entity with a defined benefit pension plan can elect to immediately recognize unamortized actuarial gains and losses and past service costs immediately through retained earnings on the opening balance sheet date with an offsetting adjustment to the recorded pension asset or liability. This exemption must be applied to all defined benefit pension plans and would provide simplified employee benefit accounting under ASPE.

Note that this exemption is likely not required to be considered if an entity is electing to follow the Immediate Recognition approach for defined benefit pension plans because there will be no cumulative unamortized actuarial gains and losses under this policy choice.

#### **Cumulative translation adjustments**

If an entity has foreign self-sustaining operations and cumulative translation balances in other comprehensive income/equity, this exemption will permit the entity to effectively transfer the entire cumulative translation balance to opening retained earnings. This exemption would result in a zero transition date opening balance for cumulative translation amounts that would only be adjusted for translation adjustments for foreign operations subsequent to the opening balance sheet date.

#### **Financial instruments**

This exemption will permit an entity to record through opening retained earnings any differences in the recognition and measurement of financial instruments from the prior GAAP closing balance sheet date to the requirements under Section 3856 *Financial Instruments* .

This exemption also permits an entity to avoid retroactively applying the

classification requirements of Section 3856 to previously issued convertible debt instruments where the liability component is no longer outstanding. Essentially, this exemption will allow an entity to not have to adjust the residual amount recorded in equity for eligible convertible debt instruments, if any.

Finally, this exemption also permits an entity to elect to account any eligible financial asset or financial liability outstanding on the opening balance sheet date at fair value with changes in fair value recorded through profit and loss subsequent to the opening balance sheet date.

### **Share based payment transactions**

Any entity that has stock-based compensation that was issued prior to the opening balance sheet date and is still outstanding on that date can use this exemption to avoid recognizing and measuring such instruments on a basis consistent with the requirements of ASPE. This exemption will provide relief for entities who, under prior GAAP, have either used the minimum value method, zero volatility as in input into the fair value or not recognized the value of the awards at all. Note that the disclosure requirements for such instruments must still be met even if this exemption is applied.

### **Asset retirement obligations**

If an entity is required to change their method of calculating asset retirement obligations under ASPE from the amount determined under prior GAAP, this exemption will permit the entity to apply a short cut approach to recording the adjustment to the carrying amount of the asset by allowing the entity to estimate the amount of the change that would relate to the associated asset and to record the difference between the calculated change to the liability and the estimated adjustment to the asset through opening retained earnings on transition.

### **Related party transactions**

This exemption permits entities to retain the prior GAAP accounting recognition for related party transactions completed before the date of transition, irrespective of whether the assets and liabilities recorded as a result of the related party transaction were recorded at carrying amount or exchange amount.

## **Mandatory exceptions**

### **Derecognition of financial assets and liabilities**

An entity is not permitted (subject to exception below) to recognize in the opening balance sheet non-derivative assets or non-derivative liabilities that were previously derecognized under prior GAAP.

Alternatively, an entity may choose any date prior to the date of transition and retrospectively apply the derecognition criteria in Section 3856 *Financial Instruments* to transactions between that date and the opening balance sheet date, providing sufficient information to record the transaction was available at the date of these prior transactions.

### **Hedge accounting**

Entities will be required to record all instruments that meet the definition of derivative financial assets and derivative financial liabilities at fair value on the opening balance sheet date. In addition, previously deferred hedge

accounting gains and losses recorded under prior GAAP as deferred assets or deferred liabilities will have to be adjusted through opening retained earnings unless they meet the explicit criteria noted below. This exception indicates that unless the criteria below are met, hedge accounting cannot be applied retrospectively to periods prior to the opening balance sheet date for any hedging relationship that does not fully comply with the hedging requirements of Section 3856 *Financial Instruments* .

In the event that an entity had documented and designated a hedging relationship prior to the date of transition that fully complied with the requirements of Section 3856, the entity adjusts the carrying amounts of the hedged and hedging items to the amount that would have been recognized had Section 3856 always applied.

### **Estimates**

This exception prohibits an entity from revising estimates recorded under prior GAAP as at the opening balance sheet date for information obtained subsequent to that date. In addition, if ASPE requires the recognition of an estimate that was not required under prior GAAP, the estimate must only use assumptions, conditions and information as at the opening balance sheet date.

### **Non-controlling interests**

This exception provides explicit guidance on the accounting for non-controlling interests under Section 1602 *Non-controlling Interests* . Generally the requirements of Section 1602 are applied prospectively unless an entity has elected to apply the requirements of Section 1582 *Business Combinations* retrospectively.

[Back to the top](#)

---

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

400 Applewood Crescent  
Vaughan, Ontario L4K 0C3 Canada  
Phone Number: 416-643-8400  
Fax Number: 416-601-6151

© Deloitte & Touche LLP and affiliated entities.  
™ © 2006, VANOC.

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services through more than 7,700 people in 58 offices. Deloitte operates in Québec as Samson Bélair/Deloitte & Touche s.e.n.c.r.l. Deloitte & Touche LLP, an Ontario Limited Liability Partnership, is the Canadian member firm of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

[www.deloitte.ca](http://www.deloitte.ca)

 [Deloitte RSS feeds](#)  
[Forward this email](#)  
[Unsubscribe](#)