



The CICA's Guide to
**Accounting Standards for
Private Enterprises in Canada**

June 2010



New Accounting Framework for Private Enterprises

Accounting standards for private enterprises in Canada were issued by the Accounting Standards Board in 2009. The standards are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted. The standards can be found in Part II of the *CICA Handbook—Accounting*.

The CICA's Website on Accounting Standards for Private Enterprises

For the latest information to help you manage the transition to the new accounting standards for private enterprises go to <http://www.cica.ca/PE> or to the website of your provincial Institute/Ordre.

Make sure to subscribe to receive email updates on new resources and information that are added to the website regularly.

About this Guide

The CICA has prepared this reference guide to help you transition to new Canadian accounting standards for private enterprises. This guide provides a comparison of new accounting standards for private enterprises (Part II of the revised *CICA Handbook – Accounting*) to the XFI version (found in Part V of the *CICA Handbook – Accounting*).

About the CICA

The Canadian Institute of Chartered Accountants (CICA), together with the provincial, territorial and Bermuda Institutes/Ordre of Chartered Accountants, represents a membership of approximately 75,000 CAs and 12,000 students in Canada and Bermuda. The CICA conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the CA profession nationally and internationally. The CICA is a founding member of the International Federation of Accountants (IFAC) and the Global Accounting Alliance (GAA).

How the CICA Can Help

The CICA is the recognized leader in providing information and professional education that clarifies and aids in the application of standards in Canada. Chartered Accountants of Canada, through the CICA and the provincial Institutes/Ordre, are committed to helping you prepare for the transition.

Foreword

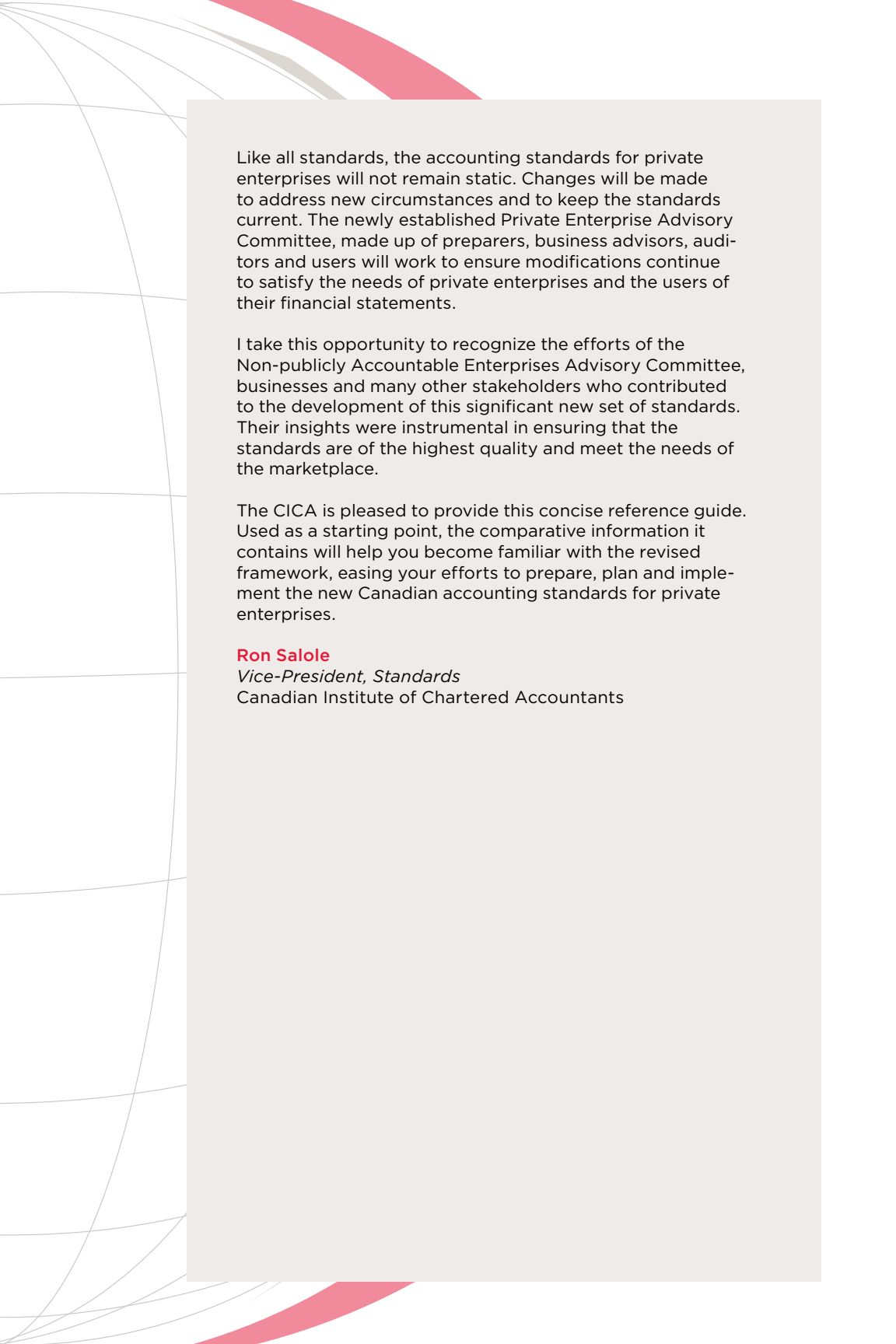


Faced with an increasingly demanding economic environment, it is vital that private enterprises in Canada have the opportunity to use accounting standards that respond to their needs and the needs of those who use their financial statements.

In 2006, the Accounting Standards Board recognized that one financial reporting framework does not fit all entities. Based on this understanding, the Board developed a strategy tailored specifically to meet the unique reporting needs of Canadian private enterprises.

The new standards are derived from standards in the existing *CICA Handbook—Accounting*. Changes were confined to areas that were identified by stakeholders as being unnecessarily complex. As a result, most of the accounting policies and practices used by private enterprises have not changed. This should make understanding and adopting the new private enterprise standards more straightforward than implementing a completely new accounting framework.

These made-in-Canada accounting standards for private enterprises are effective for fiscal years beginning on or after January 1, 2011, and include the option to early adopt. Such enterprises also have the option to adopt International Financial Reporting Standards.



Like all standards, the accounting standards for private enterprises will not remain static. Changes will be made to address new circumstances and to keep the standards current. The newly established Private Enterprise Advisory Committee, made up of preparers, business advisors, auditors and users will work to ensure modifications continue to satisfy the needs of private enterprises and the users of their financial statements.

I take this opportunity to recognize the efforts of the Non-publicly Accountable Enterprises Advisory Committee, businesses and many other stakeholders who contributed to the development of this significant new set of standards. Their insights were instrumental in ensuring that the standards are of the highest quality and meet the needs of the marketplace.

The CICA is pleased to provide this concise reference guide. Used as a starting point, the comparative information it contains will help you become familiar with the revised framework, easing your efforts to prepare, plan and implement the new Canadian accounting standards for private enterprises.

Ron Salole

Vice-President, Standards

Canadian Institute of Chartered Accountants

List of Acronyms

AcSB:	Accounting Standards Board (Canada)
CICA:	Canadian Institute of Chartered Accountants
EIC:	Emerging Issues Committee
FOME:	Framework for Owner Managed Enterprises
GAA:	Global Accounting Alliance
GAAP:	generally accepted accounting principles
IFAC:	International Federation of Accountants
IFRSs:	International Financial Reporting Standards
PICA/Ordre:	Provincial Institutes of Chartered Accountants/Ordre des comptables agréés du Québec
XFI:	Excluding Financial Instruments

CICA Handbook— Accounting

The *CICA Handbook—Accounting* was restructured to implement the Accounting Standards Board strategy to adopt different sets of standards for different categories of entities.

Preface

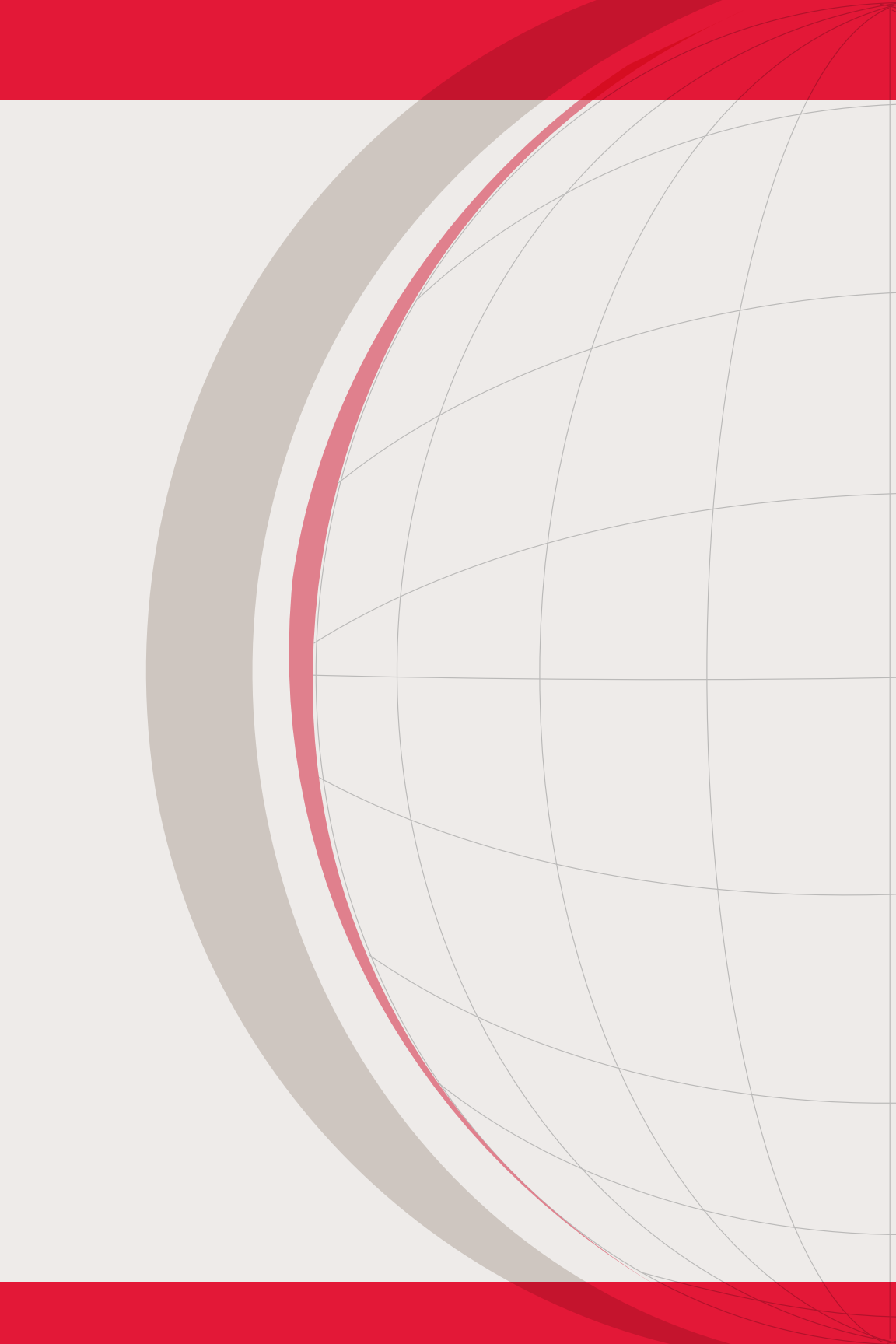
Part I International Financial Reporting Standards

Part II accounting standards for private enterprises

Part III accounting standards for not-for-profit organizations

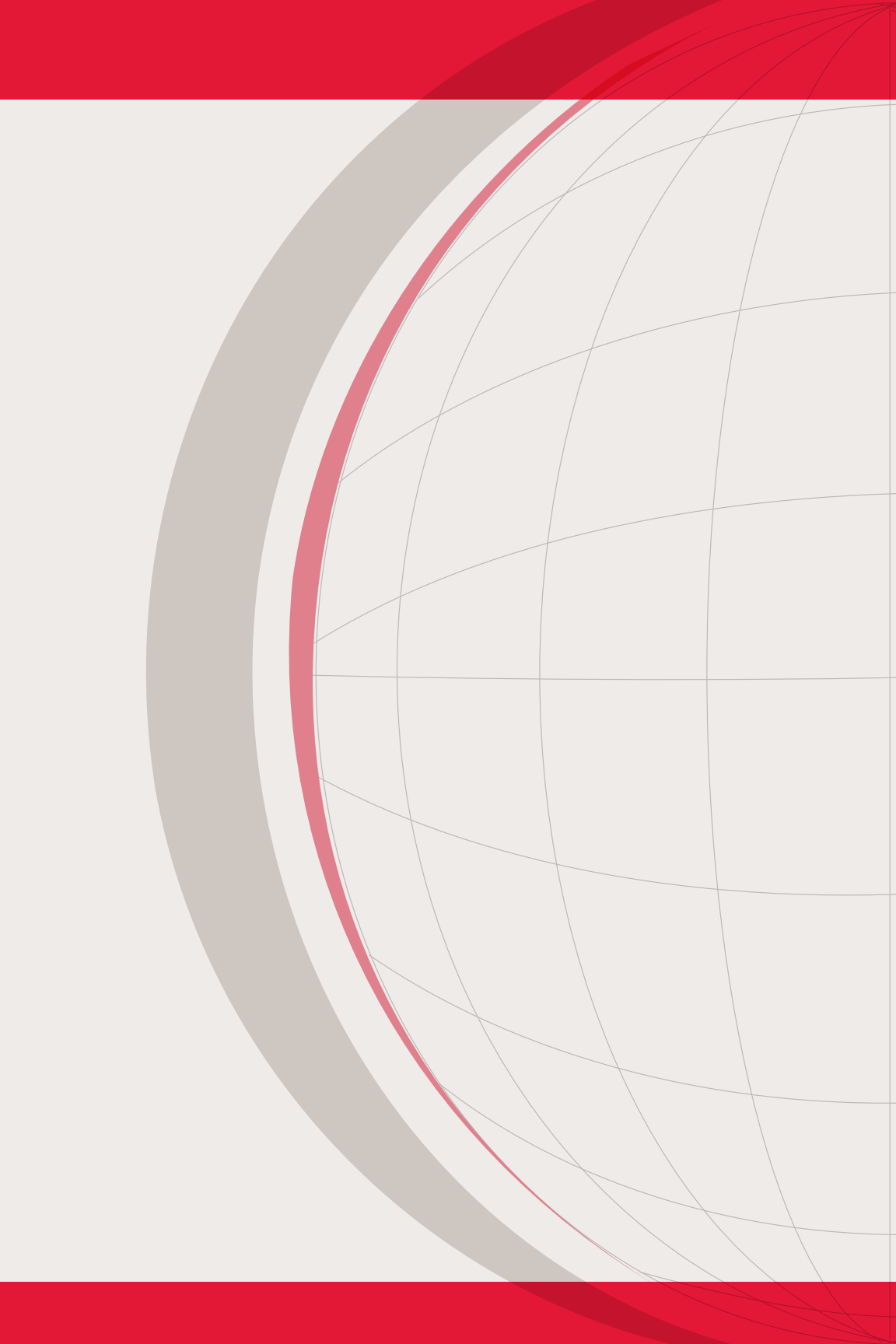
Part IV accounting standards for pension plans

Part V A complete set of the existing Handbook contents



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The Evolution of New Accounting Standards for Private Enterprises

The need for financial reporting standards that meet the unique needs of private enterprises is not new. Here are some significant milestones in the decade leading up to the approval of standards for private enterprises:

- 1999:** The Accounting Standards Board (AcSB) issued a research report, *Financial Reporting by Small Business Enterprises* that concluded standards were becoming overly complex for smaller, privately held companies.
- 2000:** The *Differential Reporting Advisory Committee* was created to provide a private enterprise perspective into the standards setting process.
- 2002:** Differential reporting became effective for private entities that met certain conditions.
- 2006:** The AcSB's decision to adopt International Financial Reporting Standards (IFRSs) for publicly accountable enterprises changed the overarching system in which differential reporting was embedded, requiring a reconsideration of accounting standards for private enterprises.

The AcSB therefore conducted further research into the needs of users of private enterprise financial statements. Stakeholder consultation revealed that while most of the existing standards met their needs, some areas included unnecessary complexities. The AcSB was told disclosure requirements were becoming overwhelming and costly to prepare.

- 2007:** The AcSB issued an Invitation to Comment and an accompanying Discussion Paper to solicit input on the best approach for the development of standards for private enterprises.

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The CICA invited comment on a proposed accounting *Framework for Owner Managed Enterprises* (FOME).

2008: The AcSB made the decision to establish “made-in-Canada” financial reporting standards for private enterprises, based on the standards in the existing *CICA Handbook – Accounting* (Handbook). This approach was influenced in part by the response to the FOME. The AcSB established an advisory committee, made up of preparers, auditors and users of private enterprise financial statements, to provide input on the development of the standards and propose solutions to address the issues identified through the 2006 research.

2009: The AcSB issued an Exposure Draft on the proposed generally accepted accounting principles (GAAP) for private enterprises.

New accounting standards for private enterprises were issued in December. The standards reduced measurement complexities of those areas identified by stakeholders as problematic and significantly reduced disclosure requirements. The standards are built from the existing Handbook, which is familiar to many users.

The approval of new standards gives Canadian private enterprises the option of using accounting standards developed specifically for their unique needs or IFRSs.

2010: The new accounting standards for private enterprises are incorporated into the Handbook as Part II.

The AcSB established the Private Enterprise Advisory Committee to provide insight into areas of the standards that require improvement, additional topics that should be addressed and issues arising in practice where implementation guidance might be helpful.

Who is Affected?

Any private enterprise can adopt the new standards. There are no qualifiers such as unanimous consent from shareholders.

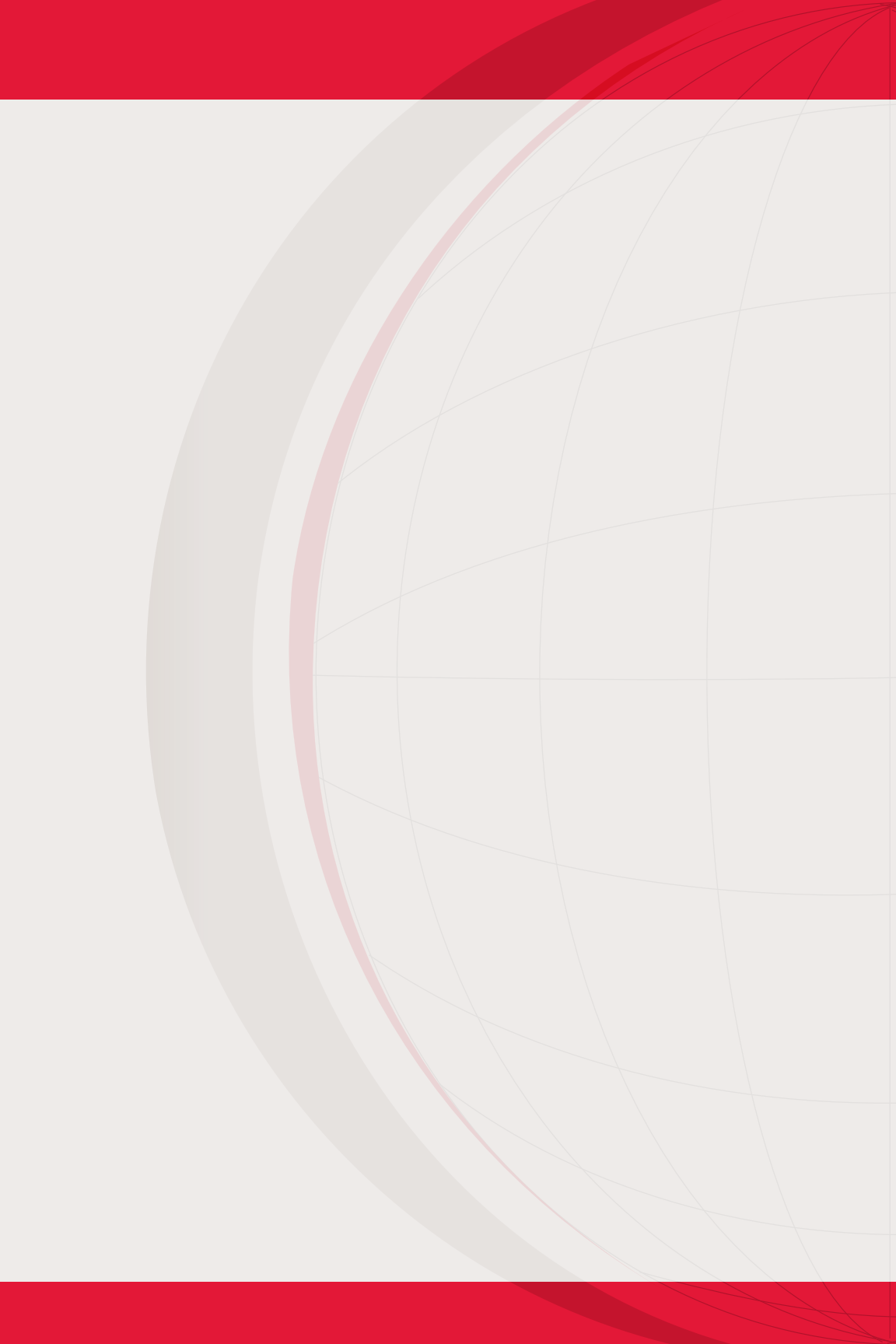
A **private enterprise** is a profit-oriented entity that is not a publicly accountable enterprise, nor an entity in the public sector.

The following definition of the term publicly accountable enterprise has been adopted for the purposes of determining which Part of the *CICA Handbook - Accounting* applies to a reporting entity.

A **publicly accountable enterprise** is an entity, other than a not-for-profit organization, or a government or other entity in the public sector, that:

- (i) has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (ii) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

Banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks typically meet the second criterion above. Other entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, co-operative enterprises requiring a nominal membership deposit or sellers that receive payment in advance of delivery of the goods or services, such as utility companies), that does not make them publicly accountable.



Key Changes

The accounting standards for private enterprises contain many parts of the existing Handbook that stakeholders indicated did not cause significant concerns.

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

A significant area of simplification that will affect many private enterprises is financial instruments. A new standard (Section 3856) was developed to replace the various financial instrument sections in the existing Handbook. Section 3856 requires most financial instruments to be measured 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 a number of other important aspects of accounting for financial instruments. The impact of adopting Section 3856 will depend on whether or not the enterprise previously used the XFI version of the Handbook.

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

Retaining the 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 to account for income taxes.

Disclosure requirements

Required note disclosures have been significantly reduced so as to focus on the needs of the users of private enterprise financial statements. In particular, there are fewer requirements for disclosure of assumptions, reconciliations and detailed breakdowns of balance sheet and income statement numbers. As a result, the cost of preparing financial statements is lower but sufficient information is provided to give fair presentation of an enterprise's financial position, operating results and cash flows and to help users gauge when to ask for more information on specific issues or transactions.

To facilitate compliance with disclosure requirements, the standards include a *Compilation of Disclosure Requirements* that reproduces all of the specific disclosure requirements contained in the standards.

Emerging Issues Committee Abstracts

In creating a principles-based financial reporting system, the AcSB concluded that it would not be appropriate to include the type of detailed guidance contained in the Emerging Issues Committee (EIC) Abstracts. Therefore, the Abstracts have not been carried forward to the new standards. However, parts of 29 Abstracts were considered to contain significant guidance that was important for private enterprises and this guidance has been incorporated in the standards. These are identified in the comparison on pages 18-36.

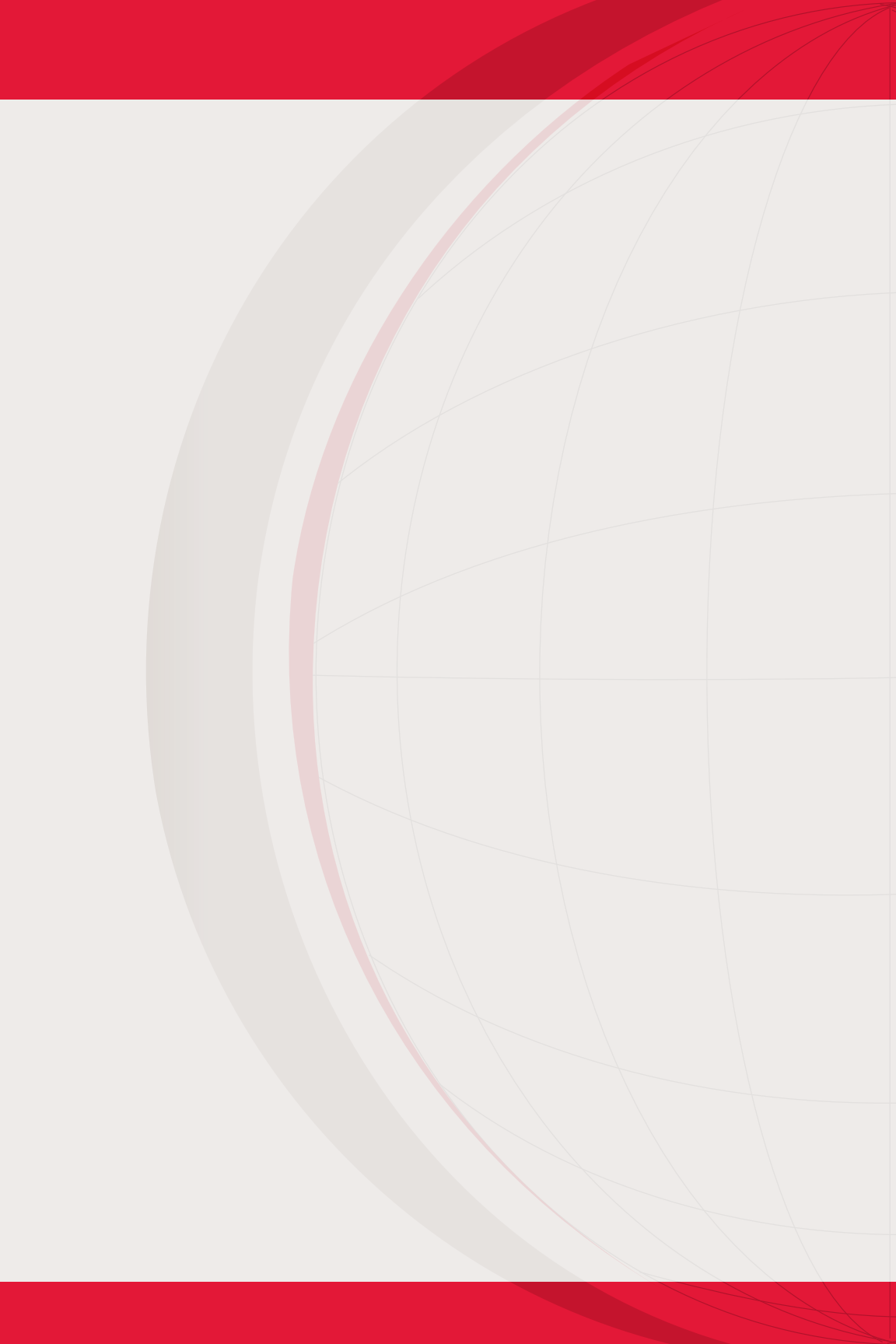
First-Time Adoption

The guidance for first-time adoption is contained in Section 1500, *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. Section 1500 provides exemptions from the general retrospective application requirement for certain specific areas. For example, although no changes were made to Section 3840, *Related Party Transactions*, a company may not have recorded past related party transactions in accordance with Section 3840. Section 1500 allows the company, on first-time adoption, not to restate such prior transactions. As a result of these exemptions, first-time adoption of the new standards will generally be straightforward.

Section 1500 also includes 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, Section 1500 requires 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. For example, for an entity's 2011 calendar year end, it will be required to present its 2010 comparative financial statements using the new standards. In addition, it needs to disclose an opening balance sheet as at January 1, 2010 using the new standards, a reconciliation showing all the changes to the January 1, 2010 retained earnings as a result of adopting these standards and a reconciliation of the 2010 net income.



Preparing for the Transition

The implications of the transition to the new accounting standards for private enterprises will depend on what accounting standards the entity is currently using: Canadian GAAP, XFI, differential reporting, International Financial Reporting Standards (IFRSs) or non-GAAP. The implications will also depend on the entity's transactions. Regardless of the entity's circumstances, becoming familiar with the applicable standards should be the first step.

IFRSs or New Accounting Standards for Private Enterprise?

Once an entity is familiar with the private enterprise standards it can decide whether adopting the new standards or IFRSs best meets its needs. Questions to consider include the following:

What are the Users' Needs and Expectations?

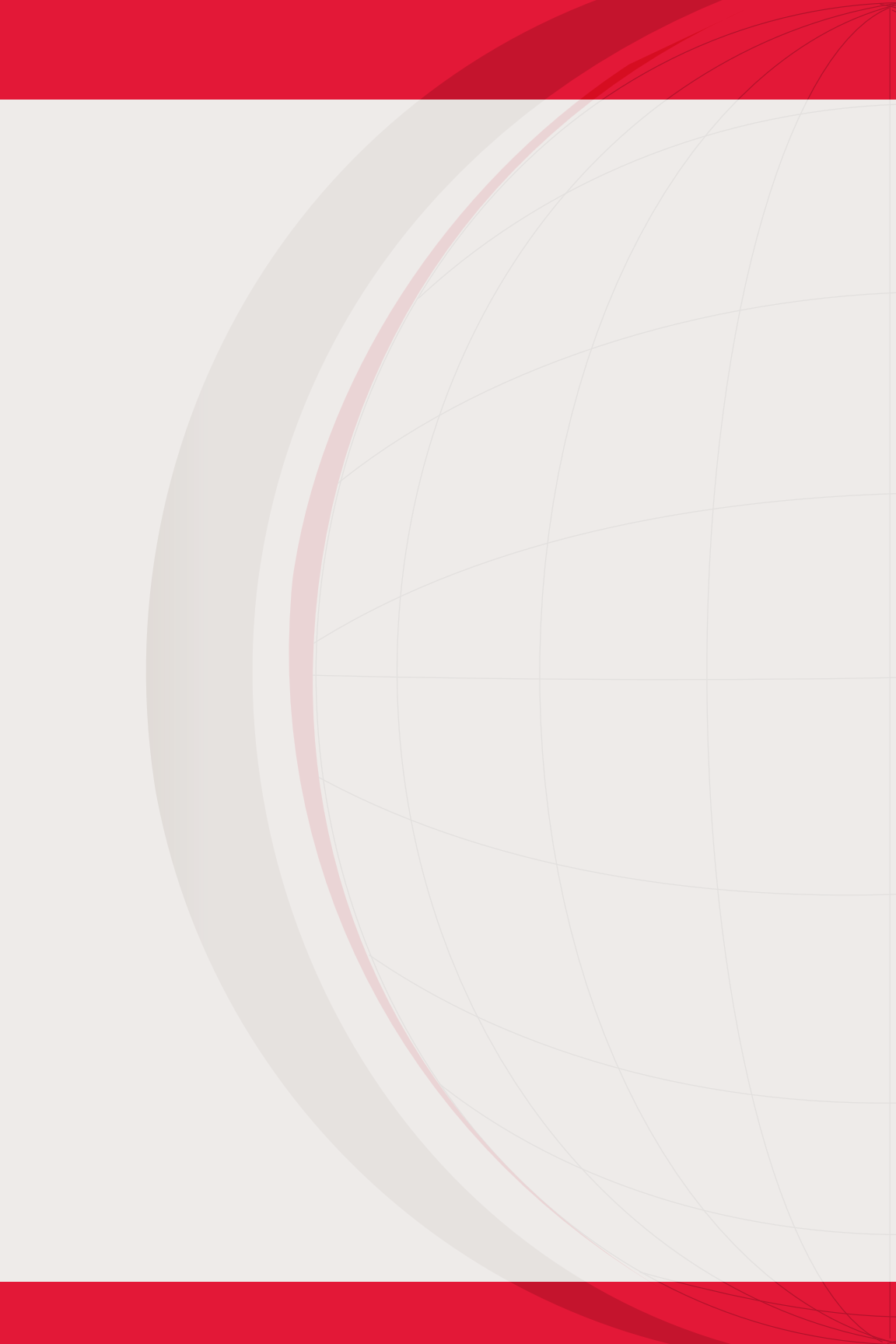
Users of the entity's financial statements may want the entity to report on the same basis as its peers in order to maintain comparability. As such, whether the entity adopts IFRSs or accounting standards for private enterprises may be influenced by its industry practice or norm. For example, are its peers predominately publicly accountable entities or international companies that will be applying IFRSs or does the industry consist primarily of private enterprises that will be adopting private enterprise standards?

What are the Entity's Future Plans?

If the entity has plans to go public, issue public debt or access foreign financing (debt or equity) over the next few years, it may be appropriate to adopt IFRSs.

What Financial Reporting Standards are Used by the Consolidated Group?

If the entity reports to a foreign parent that complies with IFRSs or has a number of subsidiaries that report in IFRSs, adopting IFRSs may be the preferred choice.



Options under Accounting Standards for Private Enterprises

Once an entity has decided to adopt accounting standards for private enterprises it should carefully consider the exemptions available under Section 1500, *First-time Adoption*, as well as accounting policy choices under the various sections of the new standards going forward.

Timing

Although the private enterprise standards are effective for years beginning on or after January 1, 2011, private enterprises have the option of early adoption. An entity may wish to adopt the standards for its 2010 year end in order to take advantage of simplification to areas such as employee future benefits or reduced disclosure requirements. Of course the decision to early adopt will affect the entity's transition timeline.

One-time disclosure and presentation requirements for the entity's first set of financial statements issued under the new standards need planning and preparation. Entities need to assess whether resources are available to prepare this information in time for 2010 year ends.

The entity should also consider which exemptions in Section 1500 it may want to select. For example, an entity may choose to apply fair value to its fixed assets. (This exemption allows a one-time revaluation of fixed assets to fair value and may be desirable to some entities.)

Implementing Accounting Standards for Private Enterprises

While implementation of the new standards will differ from entity to entity depending on the type of transactions and the existing set of accounting standards used, there are some basic steps to follow:

1. Identify the person or team of people who will be implementing the new standards.
2. Determine the required training and impact on the entity's human and other resources (e.g. information technology systems to capture and produce the required information).
3. Review Section 1500, First-time Adoption and assess options.
4. Review the entity's financial statement items and transactions and become familiar with the applicable sections of the standards in order to determine the magnitude of change from current financial statements.
5. Draft the notes to the financial statements rather than adapting existing notes to new requirements. This will ensure the entity is not just adding to the notes but is benefiting from the reduction in disclosure. Use the *Compilation of Disclosure Requirements* in Part II of the *CICA Handbook - Accounting*.
6. Consider the impact on other areas of business such as debt covenants, banking agreements and employee bonuses.
7. Communicate the differences in the financial statements with key stakeholders such as bankers and shareholders.

Getting Involved

The Accounting Standards Board is committed to ensuring that accounting standards for private enterprises keep pace with the dynamic and changing needs of this vital segment of the Canadian economy.

A national advisory committee has been established to provide ongoing insight. The Private Enterprise Advisory Committee is comprised of volunteers from across Canada who represent a cross-section of stakeholders including financial statement users, financial statement preparers and accounting professionals.

Committee members will advise the AcSB on areas within the framework that require improvement and additional topics that should be addressed. They will also identify issues arising in practice where implementation guidance might be helpful.

Any changes to the standards will go through the AcSB's normal due process, including exposure of draft proposals for comment.

Constituents are encouraged to contact the committee to suggest areas that should be considered:

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Resources Available from Chartered Accountants of Canada

The CICA, along with the provincial Institutes/Ordre, provide information and learning opportunities to assist members and the broader business community develop the knowledge and expertise they need to excel in their professional capacities.

We hope this guide helps you by providing a high-level comparison of the new standards to the XFI version of Part V of the *CICA Handbook – Accounting*. Other resources include:

- *Getting Familiar with new Canadian Accounting Standards for Private Enterprises* – a free webinar
- Accounting Standards for Private Enterprises FAQ

For more information visit the www.cica.ca/PE or your provincial Institute/Ordre website.

Provincial Institutes/Ordre

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If you are in the Northwest Territories or Nunavut, please contact the Institute of Chartered Accountants of Alberta.

