

Converting to IFRS and PE GAAP: Some Basics

2010 will be the most challenging year in decades for accountants, CEOs, CFOS, Directors, Owner-Managers, controllers, IT Software developers and proprietors, due to the mandatory conversion to International Financial Reporting Standards (IFRS) for every public company in Canada, and the change to Generally Accepted Accounting Principles for private enterprises. The PE GAAP group is the largest - comprised of 2.2 million non-publicly accountable profit-oriented small businesses.

IFRS – International Financial Reporting Standards

A private company might want to adopt IFRS for a number of reasons:

1. Subsidiaries have parent companies who use IFRS
2. The business is planning to sell or amalgamate and the buyer wants IFRS compliant statements with meaningful comparisons already in place
3. International bankers require IFRS
4. Key users (creditors, bankers, shareholders) expect IFRS
5. The company's CFO wants to keep the leading competitive edge and must be able to compare financials – apples with apples
6. Future goals involve transitioning to public in order to trade stock in the open market

PE GAAP: Generally Accepted Accounting Principles for private enterprises

Greg Edwards, CA, Principal, Accounting Standards, and Project Manager of PE GAAP at the Accounting Standards Board (AcSB) in Toronto, shared some thoughts about the new standards at a recent conference in Halifax.

The CICA Handbook was used as the basis but the new standards are an attempt to make life easier for regular businesses that wanted to be compliant with GAAP but were hindered by unnecessary complexities. The new standards eliminate the EIC Abstracts and unnecessary material, and

deal with disclosure overload. They keep the standard that “amounts payable for government remittances at year end” be shown. There is a Disclosure Supplement which provides for all disclosures being in one place. Section 1400 has fair presentation requirements: it is not required to disclose information that is not material.

Edwards explained that there is a single standard (3856) that addresses all financial instruments: Measure at amortized cost, except fair value for equity securities and free standing derivatives that are not in a hedge. There is a Fair Value Option. No OCI – all gains and losses go through net income.

The key problem areas that Edward’s team at AcSB addressed during the creation of PE GAAP were:

- Financial instruments
- Employee future benefits
- Intangible assets
- Goodwill Impairment
- Stock-based compensation
- Asset retirement obligations
- Income taxes
- Investments
- Callable debt
- Leases
- Joint Ventures

If a business chooses to comply with PE GAAP, first time adoption is found in Section 1500 with the starting period being January 1, 2011 but with the requirement of an opening balance sheet as at January 1, 2010 for comparison. However, early adoption starting in 2009 is permitted.

Transition Issues at first time adoption involve disclosure requirements such as: changes to retained earnings resulting from transition, net income reconciliation for comparative year, and explanation of material

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adjustments to cash flow statement. For further details, there are many free articles and webinars about PE GAAP at www.CICA.ca

So far, QuickBooks and Simply Accounting have been officially silent on the subject of compatibility with the new standards. However, I have personally been told by Sage developer Alistair Ellis that Simply Accounting 2011 would be compatible to meet the needs of private companies.

Also, for year ends, public accountants convert financial data into Caseware which will be IFRS compliant. Since Simply Accounting and QuickBooks likely have few public companies as users, there should no compatibility problem with IFRS.

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