



KPMG ENTERPRISE

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

Improvements to ASPE

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Canada's Accounting Standards Board has published the first set of annual improvements for Accounting Standards for Private Enterprises (ASPE). These improvements amend a number of ASPE standards based on input the Board received to its May 2011 exposure draft. The changes are effective for the first year that an entity adopts ASPE, which for most calendar year-end companies, will be the year ending December 31, 2011.

The most substantive changes in the annual improvements relate to financial instruments and, more specifically, to the application of hedge accounting.

Firstly, additional guidance has been provided on the accounting treatment for hedges of anticipated transactions. The guidance will assist preparers in accounting for gains and losses when a hedged transaction and the related hedging instrument (usually a forward contract) do not mature on the same date. The guidance reinforces that when the hedging instrument is settled prior to the hedged transaction, any gain or loss is deferred and recognized when the hedged transaction is recognized. When the hedging instrument is settled subsequent to the settlement of the hedged transaction, any gain or loss on the hedging instrument that arises after the settlement of the hedged transaction is recorded in income.

In addition, the amended hedging standards now allow for the application of hedge accounting to an anticipated purchase or sale of a commodity as long as the anticipated transaction will occur within 30 days of the maturity date of the related forward contract. A similar extension has been provided for settlement of an anticipated foreign currency transaction. The standard previously restricted the time period to 14 days. The requirements for the application of hedge accounting to interest rate swaps have also been relaxed. Under the existing standard, an interest rate swap would not have qualified for hedge accounting if the hedged item was prepayable. Hedge accounting can now be applied as long as it is probable that the hedged interest bearing asset or liability will not be prepaid. The Board also amended the requirements for hedging the purchase or sale of a commodity,

removing the requirement for “the same location” but adding a requirement for “similar grade or purity”.

Finally, the annual improvements allow qualifying hedging relationships entered into at any time prior to the end of the company’s first fiscal year beginning on or after January 1, 2011 (i.e. before December 31, 2011 for calendar year-end companies) to be accounted for using hedge accounting. The original standard precluded retrospective designation of hedging relationships.

Other annual improvements that were announced impact financial statement presentation and accounting for goodwill and intangible assets, but only in limited circumstances.

Preparers of financial statements using ASPE will want to review CICA Handbook - Accounting Part II, Highlight Summary II.6 to determine if their companies’ financial reporting is impacted.

KPMG Enterprise business advisers are skilled in ASPE and the proposed changes. They are ready to help you with your transition project now to ensure you have the time to consider your accounting policy choices and transition options and select and implement those that are best for your company.

Should you have any questions, please do not hesitate to contact your adviser directly or our Concierge Services at **1-888-99-ADVSR.**

How we can help

KPMG Enterprise business advisers can help you analyze the financial reporting impact on your business of this proposed change to accounting for employee future benefits. We are also available to assist with other transition issues as your business prepares to present its 2011 financial statements under ASPE. KPMG Enterprise is also ready to support private businesses that decide to adopt International Financial Reporting Standards rather than ASPE.

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