



KPMG ENTERPRISE

ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

It's Time for Action

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Most of Canada's private companies will be adopting Canada's new Accounting Standards for Private Enterprises (ASPE) as their financial reporting framework. For calendar year-end companies, the first reporting year under the new standards will end on December 31, 2011. Some companies are well advanced or have even completed their transition to ASPE; others are in process while some are yet to begin. Act now to ensure that you have sufficient time to properly evaluate the options, their relative impact on your company and implement the changes well in advance.

As we have advised in previous communiqués, there are a number of accounting policy choices and transition options available when adopting ASPE. Key accounting policy choices that must be made include whether to:

- consolidate subsidiaries or to account for them using the equity or cost method¹
- account for investments subject to significant influence using the equity or cost method¹
- account for interests in joint ventures using proportionate consolidation, the equity or cost method
- capitalize or expense expenditures on internally generated intangible assets during the development phase
- ascribe zero value to the equity component of any compound financial instrument
- account for defined benefit plans using the immediate recognition or the deferral and amortization approach, and
- account for income taxes using the taxes payable or future income taxes method.

¹ The cost method is only available when the securities are not quoted in an active market.

Transition options that must be addressed include:

- selecting the application date for the new business combination rules
- determining whether to fair value any items of property, plant and equipment or any financial instruments, and
- considering the opportunity to clear foreign currency cumulative translation accounts, as well as accumulated actuarial gains and losses and past service costs for defined benefit plans, to retained earnings.

Companies transitioning to ASPE will also need to consider the first round of “annual” improvements recently proposed by the Accounting Standards Board (AcSB), as any changes ultimately adopted must be implemented as part of the transition to ASPE.

A number of the improvements proposed by the AcSB are of a clerical nature and will have minimal, if any, impact on preparers of financial statements. Some proposals, however, will impact those who prepare the financial statements of private enterprises and public accountants who audit or review these statements. The more significant proposals are outlined below.

Subsequent Events

The AcSB is proposing to amend Section 3820 of Part II of the CICA Handbook – Accounting (ASPE). The proposed changes will make management’s responsibilities for identifying and recording or disclosing subsequent events the same as those of the auditor or public accountant. Whereas management may have previously interpreted the date of completion of financial statements (i.e. the date to which subsequent events must be considered) as the date when the audit or review engagement fieldwork was complete, the proposals clarify that financial statements are only considered complete when:

- the financial statements, including all note disclosures, have been prepared
- all year-end closing journal entries, including bonuses and income taxes, have been recorded
- no further changes are anticipated, and
- the financial statements have been approved in accordance with the entity’s process.

General Standards of Financial Statement Presentation

ASPE allows for choices amongst acceptable alternative accounting policies. When an entity prepares an alternative set of financial statements for a specified use, the AcSB is proposing that these “specified use” financial statements disclose to the user that “general purpose” financial statements have also been prepared. This proposed change would also impact not-for-profit organizations when they adopt Part III of the CICA Handbook – Accounting as their new financial reporting framework in 2012.

Goodwill and Intangible Assets

The AcSB is proposing to amend this standard to confirm that costs related to mail order catalogues and other similar documents intended to advertise goods, services or events to customers must be expensed as incurred. This clarification would also impact not-for-profit organizations when they adopt Part III of the CICA Handbook – Accounting as their new financial reporting framework in 2012. For example, a not-for-profit organization would not be able to capitalize and amortize the costs of printing and distributing a catalogue of upcoming events.

Financial Instruments – Hedging

The AcSB is proposing amendments to the ASPE standards for hedging to ensure that the standards reflect the AcSB's intention when ASPE was published in late 2009. The following proposed changes are designed to ensure that hedge accounting is available for qualifying hedge relationships that are typically used by private enterprises:

- Hedge accounting would be allowed for qualifying relationships so long as the hedging instrument matures within 30 days of the hedged transaction. The window was previously 14 days.
- Hedge accounting would be available for qualifying interest rate swaps when the hedged instrument is prepayable but the swap is not prepayable, so long as it is probable that the hedged instrument will not be prepaid.
- A single derivative contract could be designated as hedging a group of qualifying transactions.
- For hedges of commodity prices, the AcSB is proposing removal of the location parameter and adding a requirement that the forward contract be for the purchase or sale of a similar grade or purity.

Some of these proposed changes will mean additional disclosures in your company's 2011 financial statements. Others, such as the proposed changes to the hedging standards, may provide opportunity to consider alternative accounting for existing relationships. Preparers of financial statements will need to consider the proposed improvements as a part of their plan to transition to ASPE.

KPMG Enterprise practitioners 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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