

# Accounting Standards for Private Enterprises Update

KPMG ENTERPRISE

Canada's Accounting Standards Board (AcSB) has published Highlight Summary no. II.1 to the CICA Accounting Handbook which formally recognizes Accounting Standards for Private Enterprises as Canadian Generally Accepted Accounting Principles (GAAP). These accounting standards form Part II of the Handbook and are effective for fiscal years commencing on or after January 1, 2011. Early adoption is permitted.

Accounting Standards for Private Enterprises can be adopted by any Canadian enterprise that does not have equity or debt that trades in a public market and does not act in a fiduciary capacity for the general public. Private enterprises that choose not to adopt Accounting Standards for Private Enterprises must adopt International Financial Reporting Standards (IFRS) no later than their first fiscal year commencing on or after January 1, 2011. Canadian private enterprises which require general purpose financial statements prepared in accordance with Canadian GAAP will not be able to adopt IFRS for Small and Medium-sized Entities, the simplified version of IFRS published by the International Accounting Standards Board in July, 2009.

The release of Accounting Standards for Private Enterprises is the culmination of the AcSB's current strategic plan for private enterprises. The standards reflect the proposals that the AcSB circulated for comment in its Exposure Draft "Generally Accepted Accounting Principles for Private Enterprises" in April, 2009 and the

changes made in response to comments received, as published in the Board's September 22-23, 2009 Decision Summary.

Private enterprises that prepare their financial statements under existing generally accepted accounting principles will have new reporting requirements and options, the more significant of which include:

- the requirement to measure investments in equity instruments which trade in an active market at fair value, with changes in fair value being reflected through income
- an option to value any financial instrument at fair value; the option must be selected on initial recognition of the instrument and is irrevocable
- restricted use of hedge accounting. Hedge accounting has been simplified but is only permitted when the relationship can be evaluated as fully effective under what is known as the critical terms match method
- transaction costs for the acquisition of financial instruments carried at fair value must be expensed

- new accounting requirements for business combinations, the preparation of consolidated financial statements and the recognition of the interests of non-controlling shareholders. The requirements include a broader application of fair value, the requirement to expense costs incurred in acquiring a new business and treating the interests of non-controlling shareholders as a portion of equity, and
- the option to account for defined benefit pension plans using the actuarial information that is prepared for funding purposes. If this option is adopted, all actuarial gains and losses must be immediately recognized in income; there is no opportunity for deferral and amortization

Accounting Standards for Private Enterprises contain guidance on the transition to the new standards. The general principle is retrospective application of the new standards but there is relief provided where the AcSB concluded that the cost of retrospective application would be excessive. There is also a general principle that estimates made in prior periods cannot be revised on transition. Additional financial statement disclosures will be required in the year of transition to inform the reader as to the impact of the transition including the accounting policy choices made by management.

Canada's private enterprises have a choice to make – Accounting Standards for Private Enterprises or IFRS. Both require change, albeit the degree of change will likely be more significant for a transition to IFRS, given that Accounting Standards for Private Enterprises are based on existing Canadian GAAP. Businesses will need to consider the needs of the users of their financial statements and their future plans for the business in selecting the appropriate financial reporting framework. The timeline for transition and the options are now clear and some of the transition options may take significant time to implement. KPMG Enterprise professionals can guide you through the selection process and support you in your transition activities.

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