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*7<sup>th</sup> Annual  
Business Update for  
Private Companies*



*7<sup>th</sup> Annual PCS  
Business Update*

**David Bryan**

*PwC*

Conference Welcome  
**8:30 am**

*7<sup>th</sup> Annual PCS  
Business Update*

**Barry James**

**Ian Gunn**

*PwC*

Results of Business Insights  
Survey

Private Company Services  
[www.pwc.com/ca/dbia](http://www.pwc.com/ca/dbia)

# *Embracing the new*

The Business Insights® Survey of  
Canadian Private Companies 2011

Barry James  
Ian Gunn

**pwc**

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## ***What is Business Insights?***

- The 2011 edition is PwC Canada's 7th annual Business Insights Survey of Canadian Private Companies
- Survey of leaders from over 300 private companies across Canada who share their thoughts on a wide range of day-to-day and strategic issues affecting their business
- Gives us a good perspective on the issues private companies face so we can understand how to continue helping private companies create lasting value
- Feedback tells us that private company leaders use the report to help benchmark their activities and validate key areas of focus

## ***Biggest challenges***

- Most significant issues over the last 12 months – the economy, competition and profitability

Top three issues that have influenced the company over the past year  
*Percentage of respondents*



- Most significant challenges predicted over the next 12 months – competition, profitability, and labour shortages

Top three issues that will influence the company over the next year  
*Percentage of respondents*

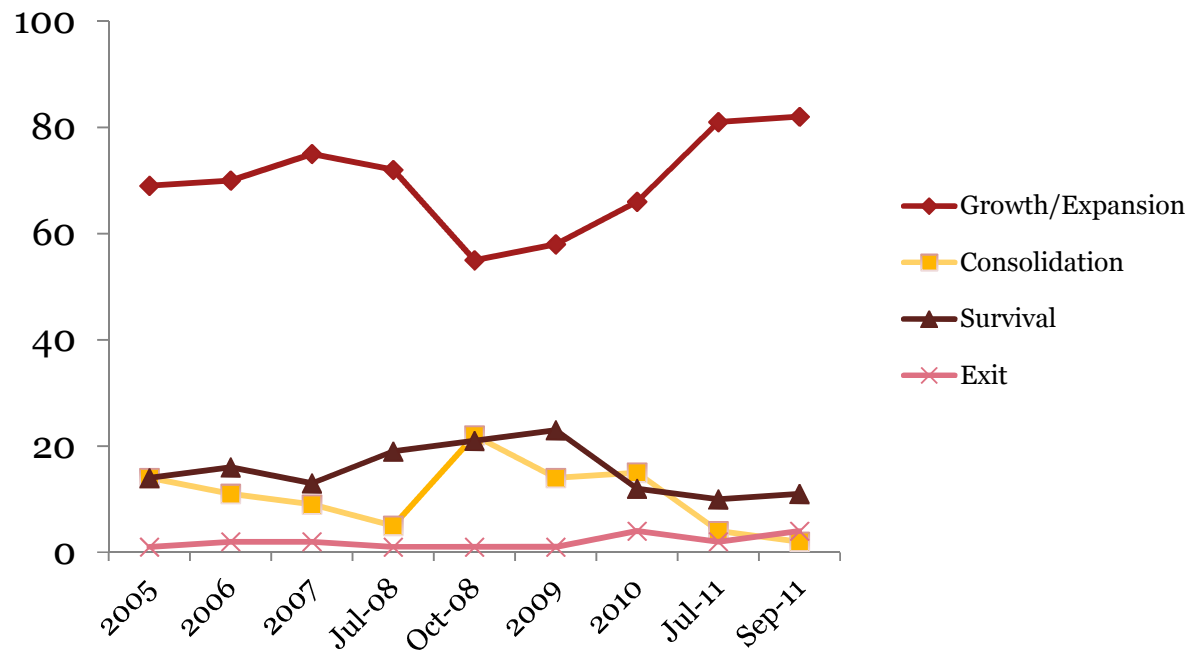


- As a whole, Canadian private companies are well positioned and prepared to manage their companies through an era of constant change and uncertainty

## Looking forward

- 81% of respondents, compared to only 66% last year, are planning to grow and expand over the next 12 months

In the next 12 months, which one of the following strategies is your company striving for?  
*Percentage of respondents*

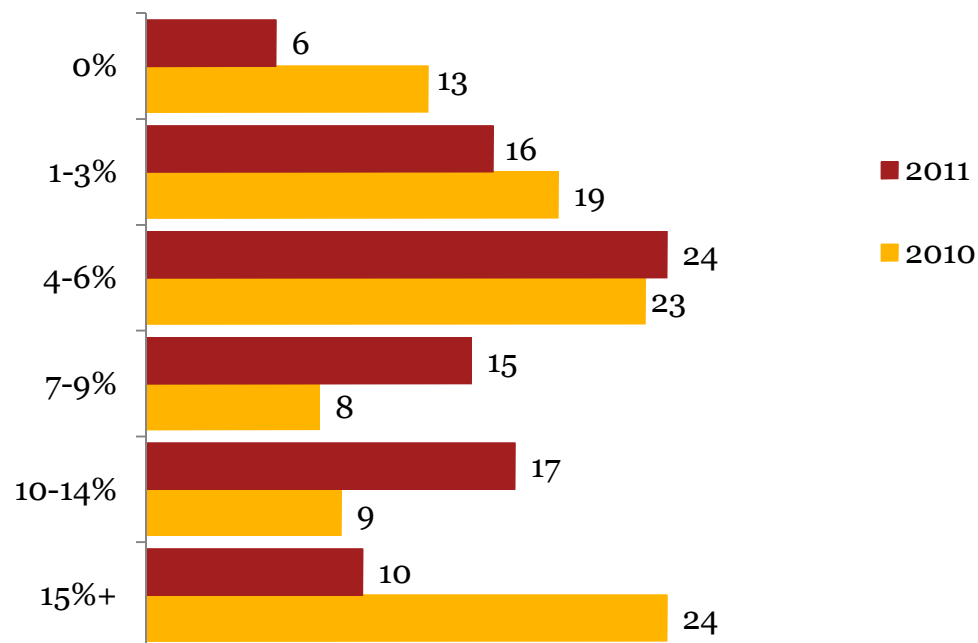


## Looking forward

- Many Canadian private companies, while determined to grow, have scaled down their expectations in response to the uncertainty in world economies and markets

What growth rate (based on gross revenue) did you set for your business in this fiscal year?

*Percentage of respondents*

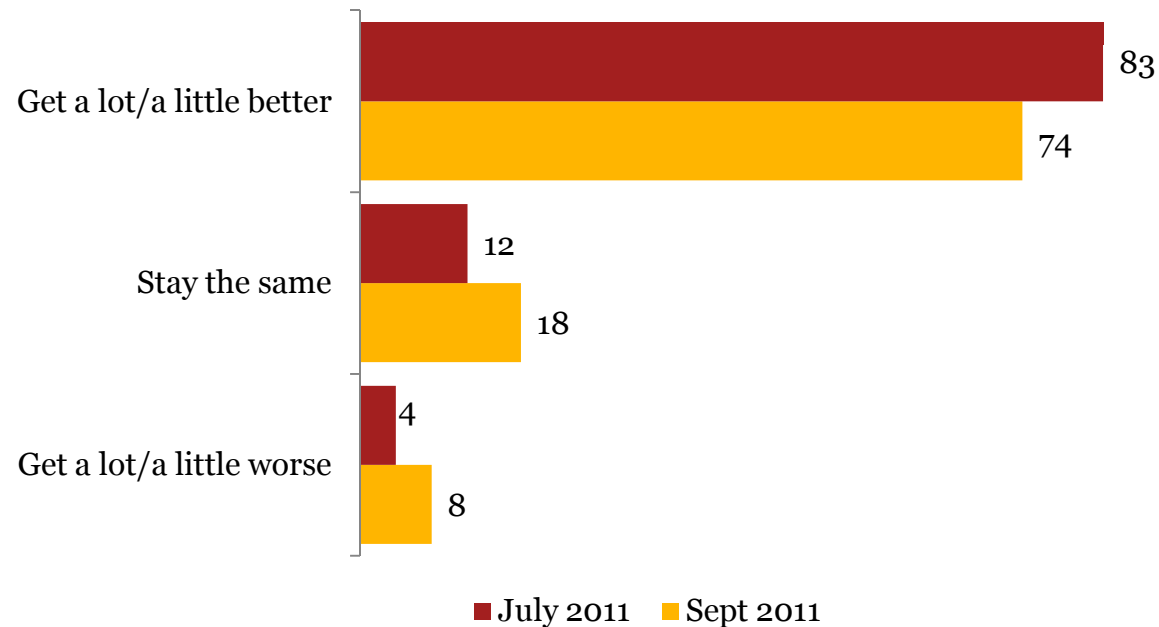


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## *Looking forward*

- Being realistic about their expectations for business development

Compared to the present situation, how do you expect your business to develop over the next 12 months? Will it...?  
*Percentage of respondents*



## Looking forward

- Plan to achieve growth by improving sales and marketing, gaining market share and/or expanding operations

How do you plan to achieve growth?  
*Percentage of respondents*



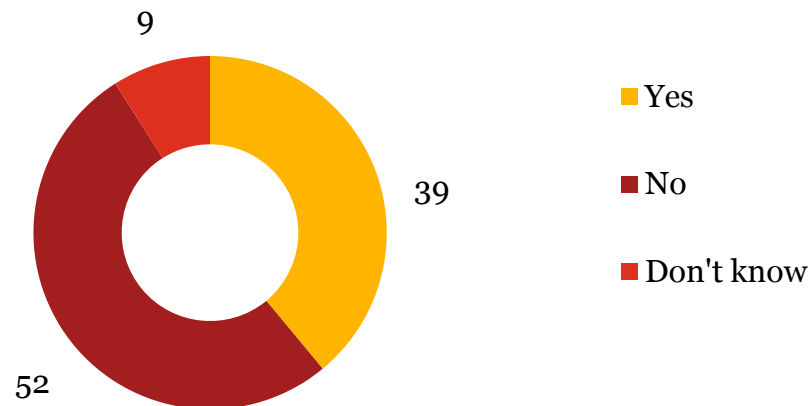
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## ***Insight 1: Businesses must be adaptable and agile to support growth***

- A strong balance sheet takes a lot of risk off the table for companies. Without it, companies risk not being able to withstand the cyclical nature in their business or the economy

Do you plan to access additional financing in the next year to fund your growth?

*Percentage of respondents planning for growth and expansion*



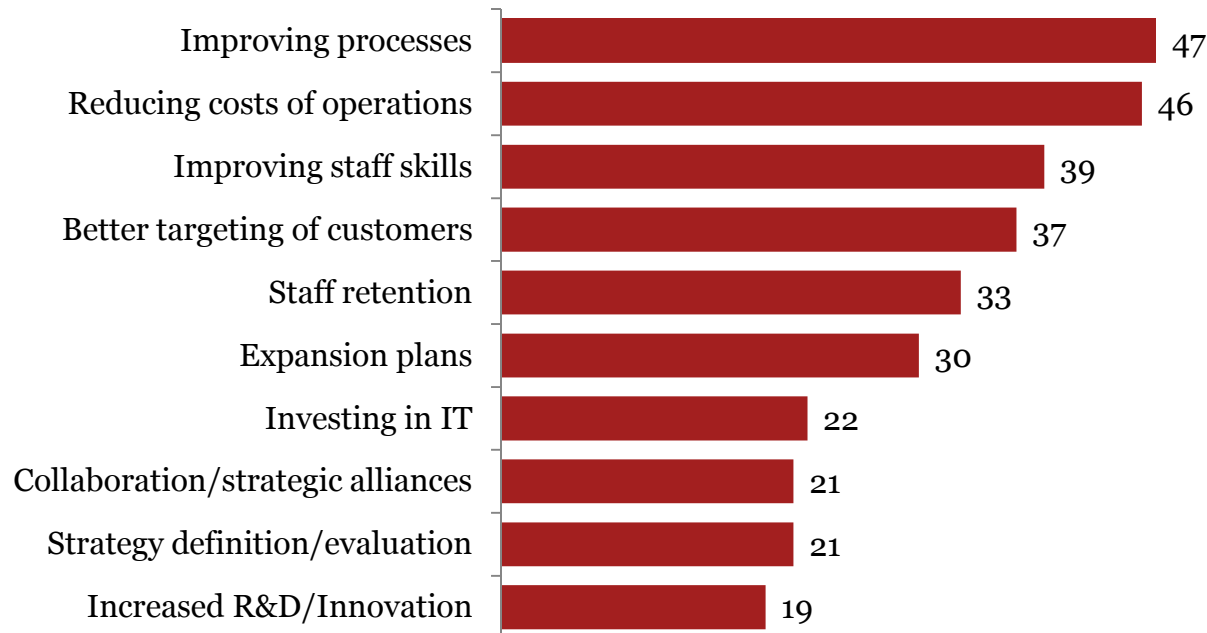
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## ***Insight 1: Businesses must be adaptable and agile to support growth***

- Companies need to continually focus on improving efficiencies, productivity and innovation

Which do you consider to be the higher priorities to improve competitive performance?

*Percentage of respondents planning for growth and expansion*

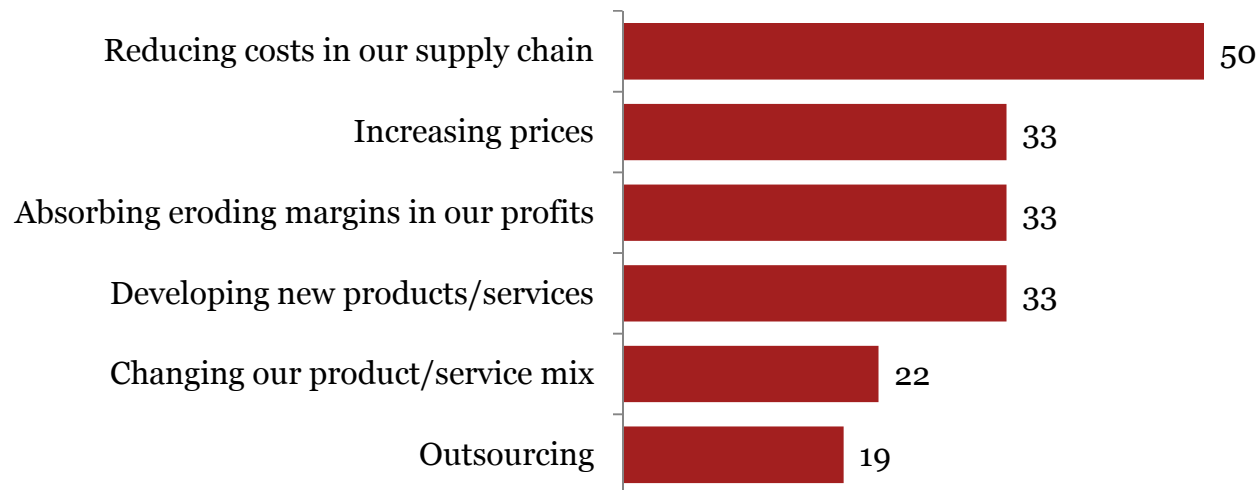


## *Insight 1: cont'd*

- Having predictability and control of a supply base can have a significant impact on a companies overall ability to meet customer demand and grow

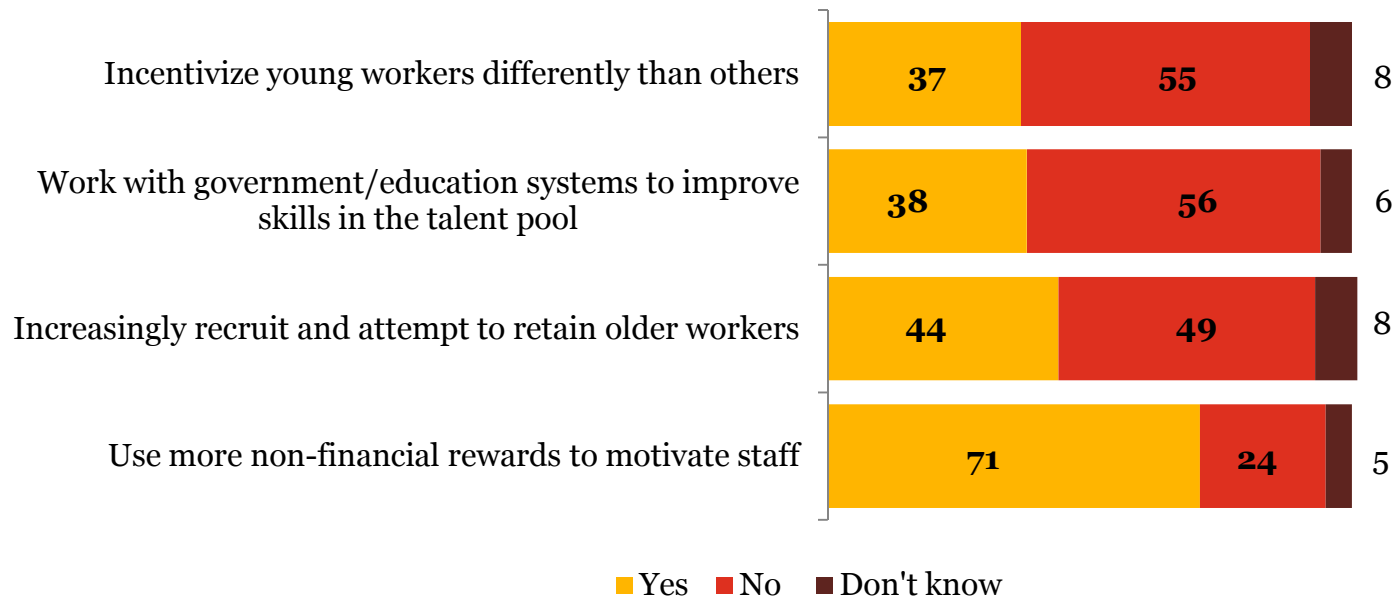
Volatility around the world is impacting the cost of inputs for many private companies. What are you doing to manage your business' cost of inputs?

*Percentage of respondents*



## ***Insight 2: Talent management will continue to be a key issue***

Do you plan to change your people strategy in the following ways over the next 12 months?  
*Percentage of respondents*



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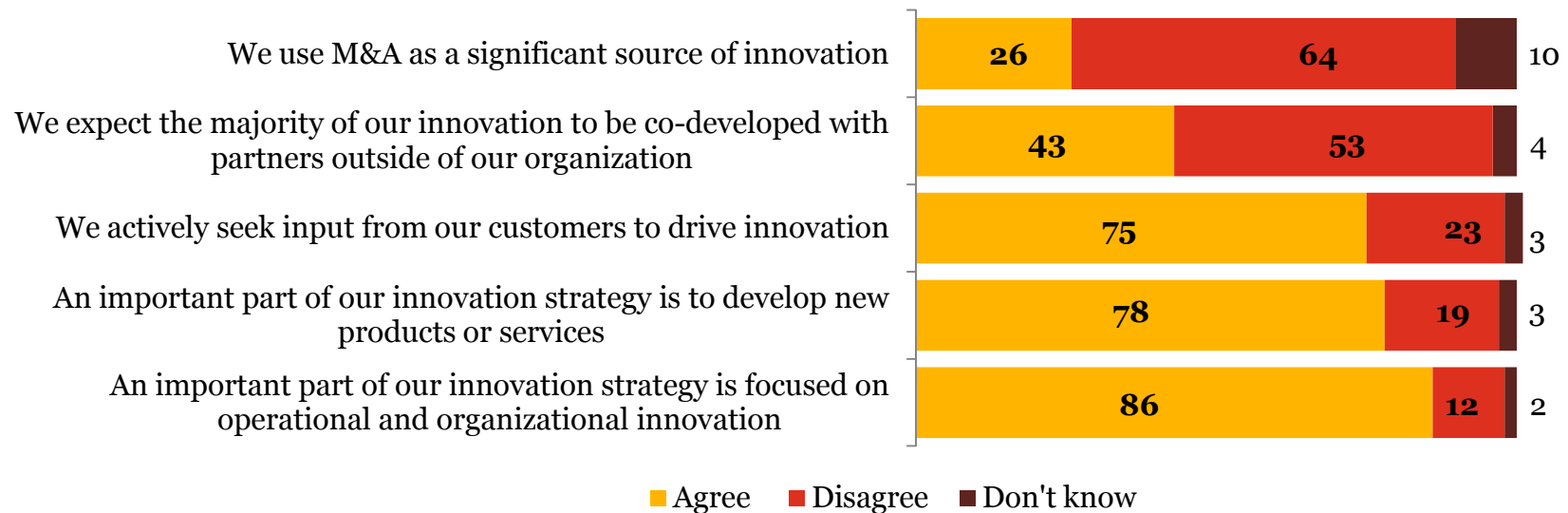
## ***Insight 2: Talent management will continue to be a key issue***

- Canadian private companies have to rethink ways to attract, retain and motivate employees
- 71% of respondents plan to change their people strategy by using more non-financial rewards to motivate staff; 44% plan to increasingly focus on recruiting and retaining older workers
- HR can no longer be a historical administrative based role focused on compensation and benefits. HR has to become a strategic partner in order for any business to compete in both the short and long-term

## *Insight 3: Ingraining innovation into the DNA of the firm is essential*

To what extent do you agree or disagree with the following statements about your expectations regarding your company's innovation over the next three years?

*Percentage of respondents*



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## ***Insight 3: Ingraining innovation into the DNA of the firm is essential***

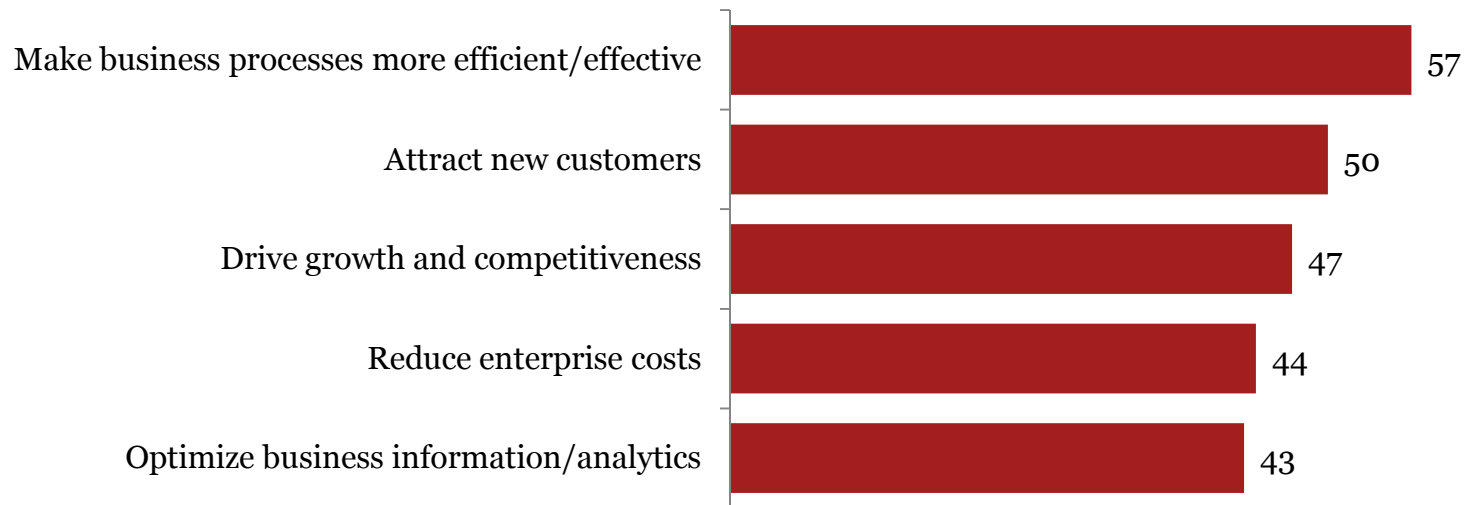
- Innovation shouldn't be about finding that one great new idea, it should be about making day-to-day innovation a priority
- Emphasis on operational innovation indicates that companies are focused on improving the way their organization is structured and the way they operate to get their product from start to finish
- The voice of customers can drive innovation

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## ***Insight 4: Technology can be the enabler for efficiency and innovation***

- Historically companies have put investing in technology on the back burner, however they are more focused than ever on using technology to improve their processes in order to advance their business

Which of the following objectives is your business aiming to achieve by leveraging its technology investments over the next 12 months?  
*Percentage of respondents*

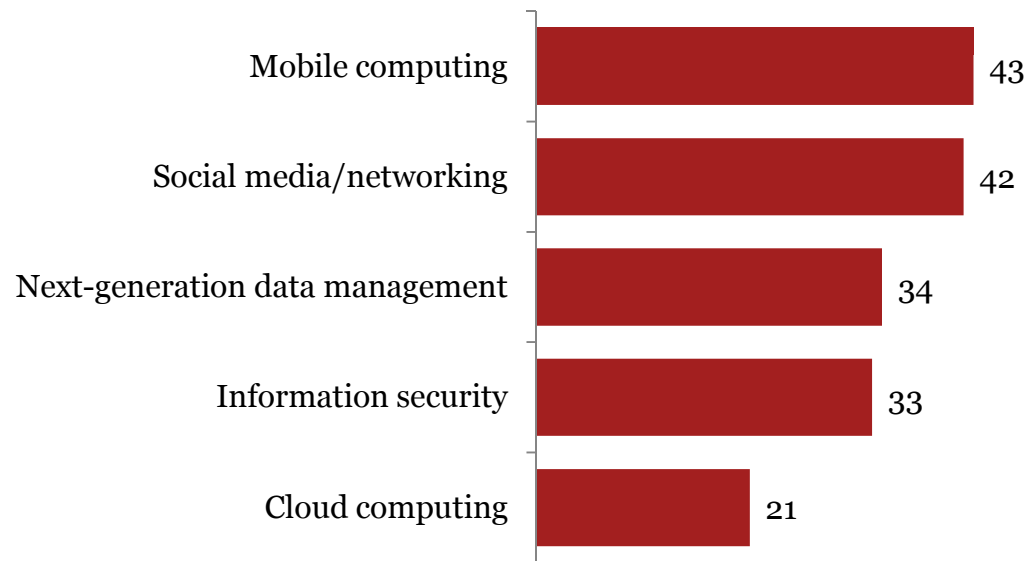


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## ***Insight 4: Technology can be the enabler for efficiency and innovation***

- Mobile computing and social media top the list of priorities for investment

Which of the following areas of technology development is your company likely to invest in during the next 1-3 years?  
*Percentage of respondents*



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## ***Insight 5: Succession planning can't just be given lip service***

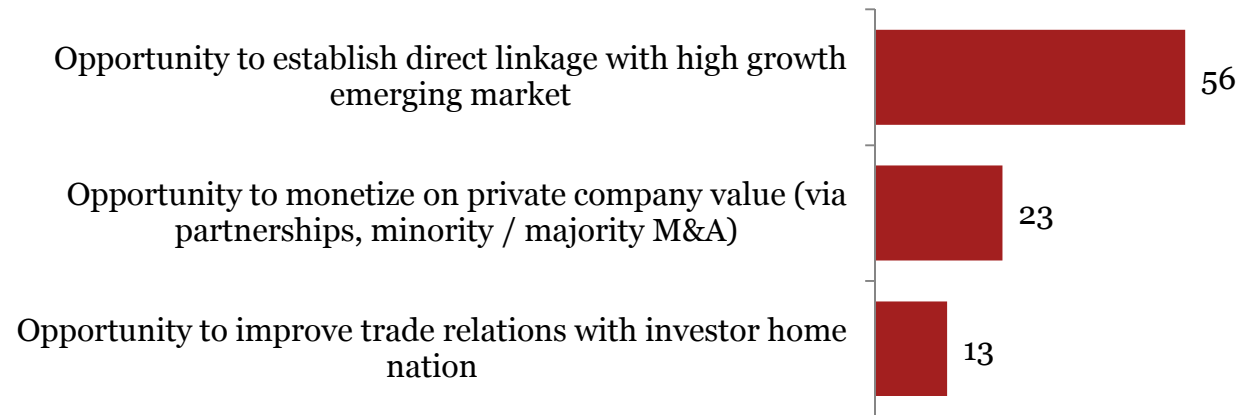
- Nearly 60% of family-owned and managed companies surveyed have a succession plan for at least some of their key senior roles. Only 17% have a succession plan for all senior executive roles and 21% don't have any plan at all
- About one-third of respondents anticipate a change in ownership over the next five years
- Plans must be formalized and actions need to be taken

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## ***Insight 6: Private companies must embrace emerging markets – at home and away***

- 49% of this year's respondents view foreign direct investment (FDI) into Canada from emerging economies as an opportunity

### **Why do you view FDI as an opportunity?** *Percentage of respondents*

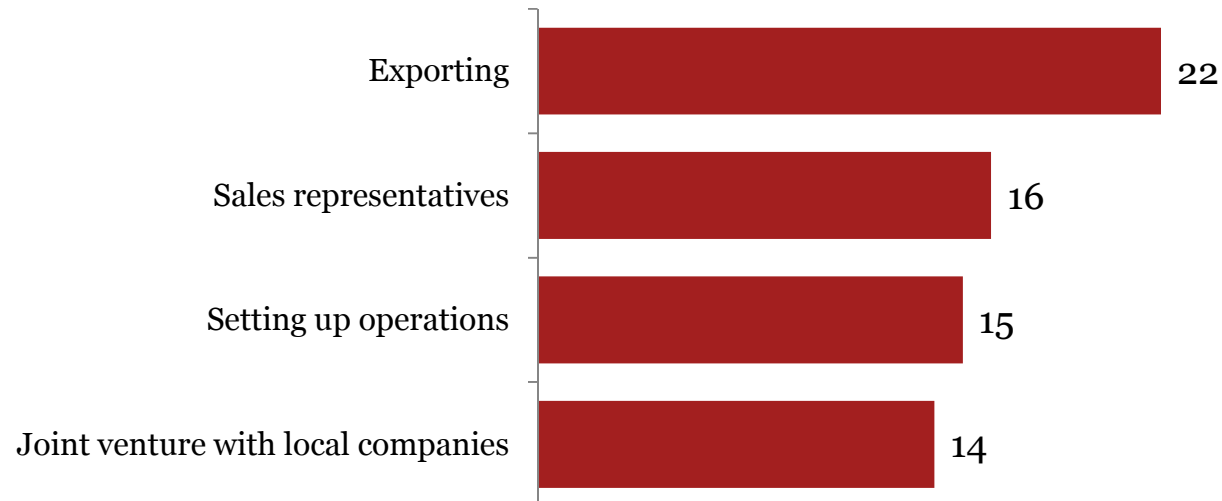


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## ***Insight 6: Private companies must embrace emerging markets – at home and away***

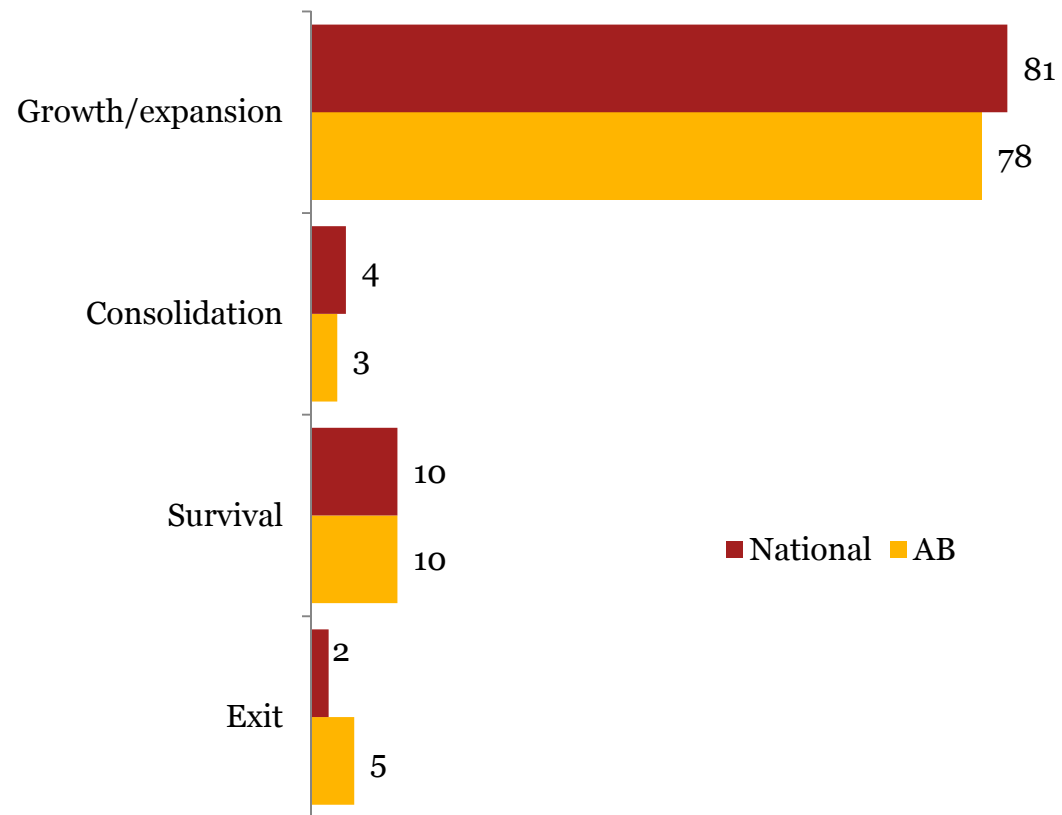
- About 6 in 10 businesses surveyed are currently doing business or considering doing business with North America, while 40% are currently doing business or considering doing business with Asia and 21% are looking into South America as an area of interest

What has been your primary source of entry into foreign markets?  
*Percentage of respondents*



# Regional outlook and strategies

In the next 12 months, which one of the following strategies is your company striving for?  
*Percentage of respondents*



# Regional outlook and strategies

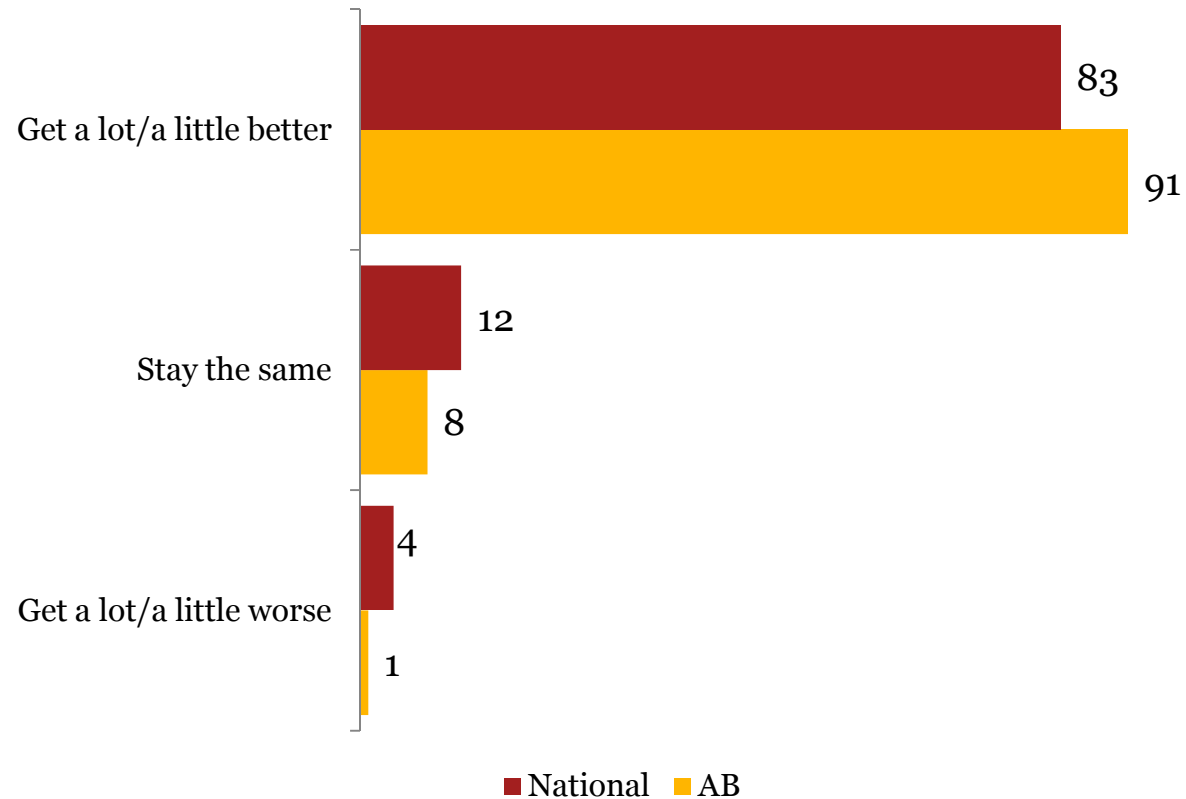
## How do you plan to achieve growth?

Percentage of respondents



# Regional outlook and strategies

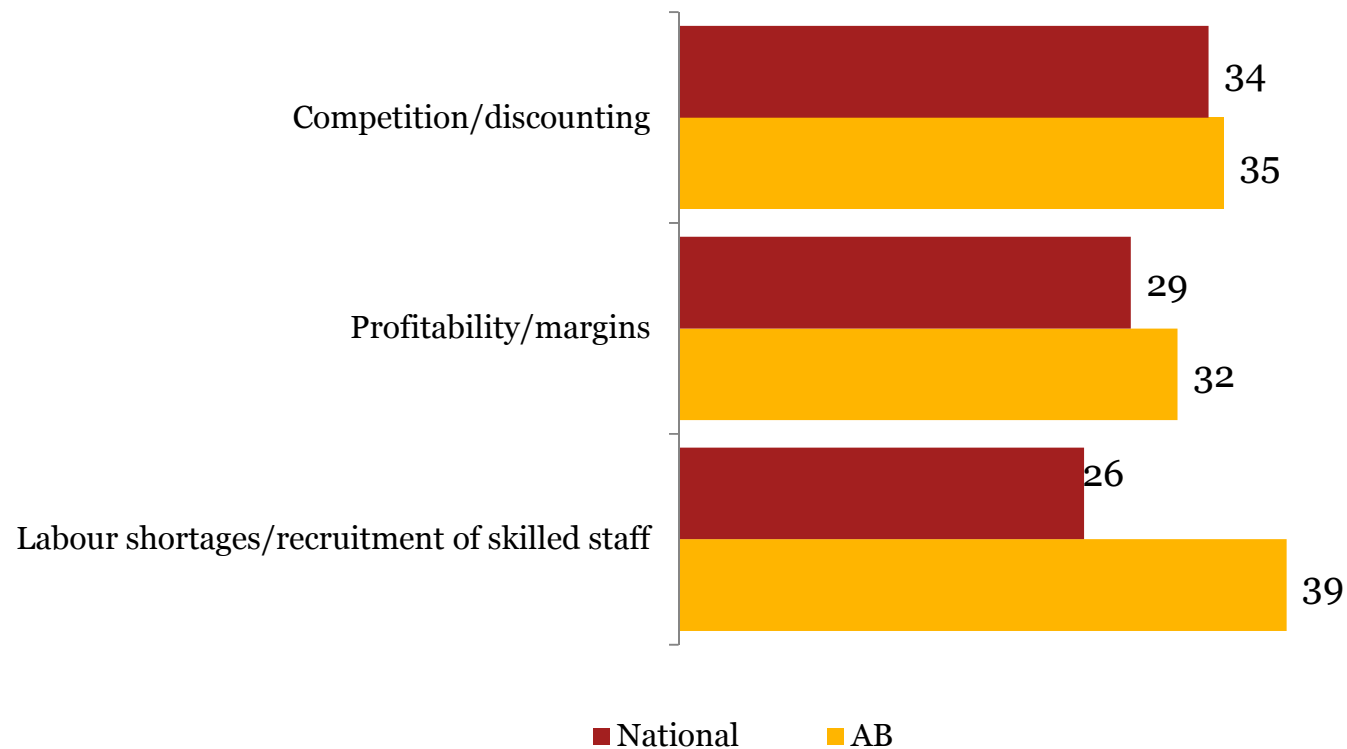
Compared to the present situation, how do you expect your business to develop over the next 12 months? Will it...?  
*Percentage of respondents*



# Regional outlook and strategies

What are the top 3 issues that will influence your company over the next year?

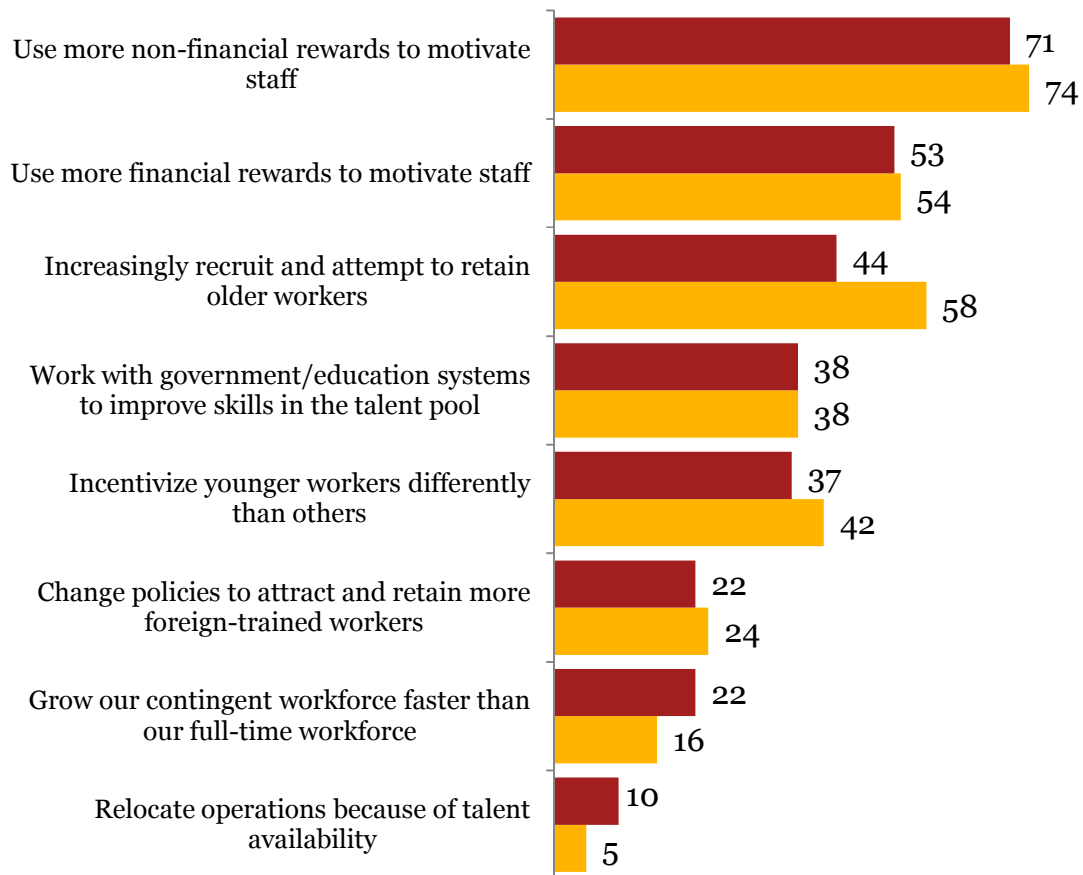
Percentage of respondents



# Regional outlook and strategies

Access to and retention of key talent is critically important for sustaining growth over the long-term.  
How do you plan to change your people strategy over the next 12 months?

Percentage of respondents

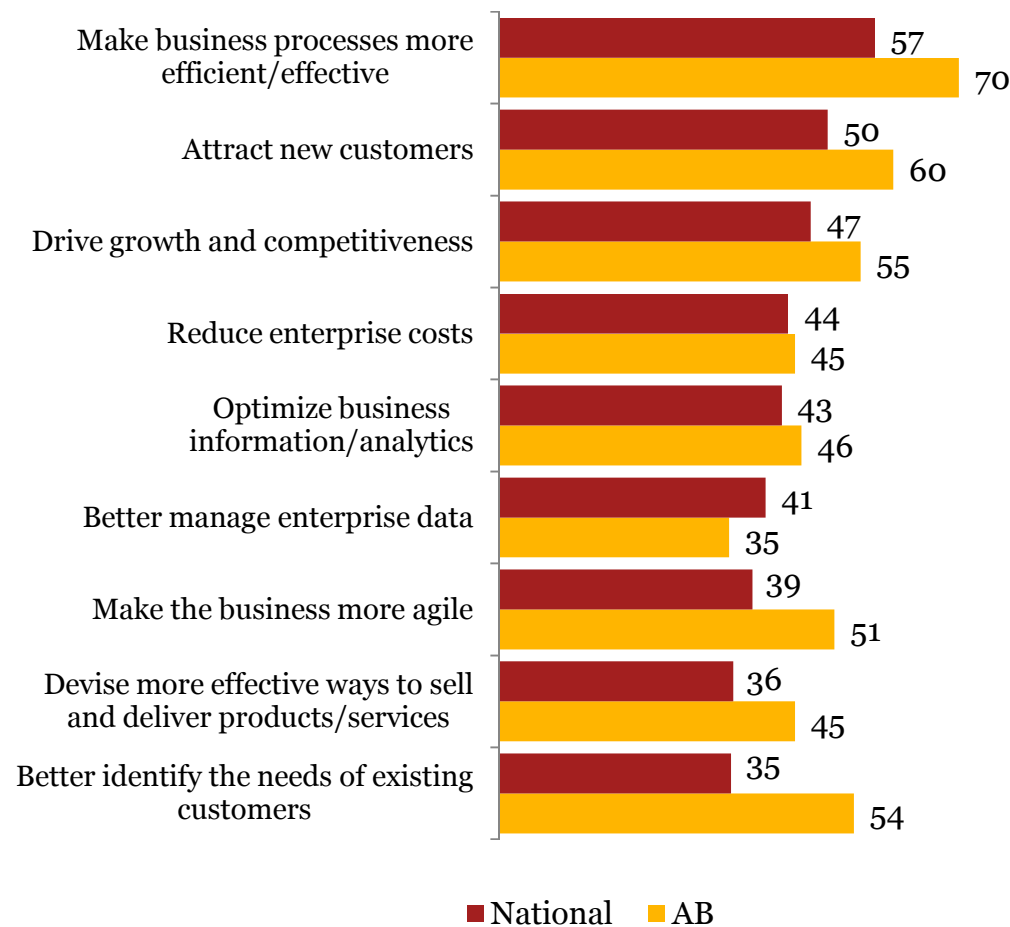


■ National ■ AB

# Regional outlook and strategies

Which of the following objectives is your business aiming to achieve by leveraging its technology investments over the next 12 months?

*Percentage of respondents*



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# *Questions?*

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# *Thank you*

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# *7<sup>th</sup> Annual PCS Business Update*

Tax Hot Topics

*Tax Hot Topics*  
*GST*

Lloyd McMaster

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## ***GST Hot Topics***

- Introduction
- BC and Quebec HST Changes
- Place of Supply Rules
- Pension Plans
- Vacation Properties



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## ***GST Hot Topics***

- Associated entities – GST registration and reporting
- Saskatchewan and Manitoba PST
- ITC Documentary Requirements
- Coupons and Gift Certificates
- Excise tax on Insurance Premiums



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***Tax Hot Topics***  
***International Tax***

**James Merkosky**

**pwc**

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## ***Cross Border Tax Update - Agenda***

- Canadian Foreign affiliate changes
  - Hybrid surplus
  - Upstream loans
- Canadian Withholding Tax Forms
- U.S. Debt U.S. Equity Considerations
- U.S. State Tax Concerns
- U.S. Citizenship
- U.S. Estate Tax

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# ***Foreign Affiliate Proposed Hybrid Surplus***

## **What is Hybrid Surplus?**

- Includes the gain (net of applicable taxes) from a disposition of a FA by a FA as a separate surplus pool.
- Dividends from hybrid surplus are composed of two equal amounts-
  - One-half is tax-free (similar to dividend from ES).
  - Other half is taxable, with grossed up deduction for any underlying tax (similar to dividend from TS).

## **When is Effective Date?**

- Internal sale - dispositions after Aug 19/11.
- External sale – dispositions after 2012.

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# *Hybrid Surplus*

## **What is surplus ordering rule?**

- Exempt, hybrid, taxable, pre-acquisition.

## **What are some implications of these rules?**

- Need to review previous internal dispositions of FA shares and revise surplus calculations.
- Consider impact on future structuring of FAs.

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## ***Foreign Affiliate Upstream Loans - Overview***

- Under current law an FA can make upstream loans to non-arm's length Canadian persons without the loan amount being included in the income of FA's direct Canadian shareholder.
- Proposal that these loans are now subject to income inclusion as deemed dividends (based on surplus pools).

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## ***Upstream Loans – Exceptions to Income Inclusion***

- Borrower is a CFA of taxpayer, where CFA is controlled by taxpayer alone or together with either i) non-arm's length Canadian persons or ii) a group of arm's length Canadian persons not exceeding 4;
- Loan is repaid within 2 years (of the day the loan was made) and not part of series of loans/repayments;
- Indebtedness arising in the ordinary course of the business of FA.

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## ***Canadian Withholding Tax Forms***

- NR 301 – Declaration of eligibility for benefits under a tax treaty for a non-resident taxpayer
- NR 302 – Declaration of benefits under a tax treaty for partnership with non-resident partners
- NR 303 – Declaration of benefits under a tax treaty for a hybrid entity
- Future CRA audit related to withholding tax will likely be easier.

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## ***Debt versus Equity***

- Advances to US subsidiary by Canadian parent
- Tier 1 audit issue with IRS
- IRS is putting more emphasis on debt versus equity issues from a business/financial perspective as opposed to case law.

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## *State Nexus*

### **Economic Nexus**

- Do not need to have presence in the state, selling into the state may be enough.
- Each state has certain factors (i.e. California, Mass, Ohio, WA).

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# *U.S. Administration*

## **Enforcement Issues**

- U.S. Citizens
  - Enforcement of filing obligations
  - FATCA implementation 2014 (?)

# Networking break

*Tax Hot Topics*  
*Canadian Tax*

Rebecca Reiger  
Nicolaus Kietaihl

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## ***Canadian Income Tax Update - Agenda***

- Administrative issues
- Partnership Income Deferral
- Donation of Flow-through Shares
- Kiddie Tax on Capital Gains
- RRSP anti-avoidance rules
- Tax Rates

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# *Administrative Issues*

## **CRA Update**

- Related Party Initiative (“RPI”)
  - Targeting individual taxpayers and their families
  - Net worth in excess of \$50m holding complex business structures
  - Questionnaires in excess of 20 pages with 30 day deadline
- Target areas: trusts, offshore structures and RCA’s
- Abuses related to EPSPs

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## ***Administrative Issues***

### **Electronic Filing**

- Gross revenues in excess of \$1 M – required to e-file returns
  - Penalties start in 2011 (\$250-2011, \$500-2012, \$1,000 after 2012).
- CRA will be able to issue certain notices electronically.

### **CCA Update**

- Class 29, M&P equipment, extended to include purchases in 2012 and 2013
- Amendments to class 43.1 and 43.2, Renewable energy equipment

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# *Administrative Issues*

## **Partnership Filings**

- Old Rule: Less than 6 partners exempted from filing T5013.
- New Rules: Must file return if carry on business in Canada or are a Canadian partnership with Cdn or foreign operations or investments **and** meet one of following conditions:
  1. Revenue and/or expenses (absolute value) exceed \$2 million or assets exceed \$5 million, or
  2. Meets one of following structural conditions
    - tiered partnerships
    - corporate or trust partners
    - invested in flow-through shares
  3. Requested to file.

---

## *Administrative Issues*

### **Partnership Filings**

- Revision to Schedule 50: Reconciliation of Partner's Capital Account
  - ACB of each partner's interest in the partnership
  - Each partner's at-risk amount for the partnership
- Year ending on or after December 31, 2011

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# *Partnership Income Deferral*

## **General Outline**

- Partnership deferral closure for corporate partners starting with taxation years ending after **March 22, 2011**
- Consistent with limitations imposed on individuals in 1995
- Applies to Corporations holding Significant Interest - generally 10% interest (including related/affiliated)
- Adjusted Stub Period Accrual – accrue income for partnership stub period; calculation based on proration of prior year's income or estimate of current (interest/penalties apply if current estimate low)
- Deduct accrual in subsequent year

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# *Partnership Income Deferral*

## **General Outline**

- Adjusted Stub Period Accrual can't be less than zero (i.e. no loss accrual) and because determined separately for each p/s, can't offset losses from one partnership against income from another.
- Qualifying Transitional Income (“QTI”) – transitional relief allows first year's accrual to be brought into income over the following 5 years (0/15%/20%/20%/20%/25%) (subject to various limitations).

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# *Partnership Income Deferral*

## **Stub Period**

Example:

Taxation year end = TYE

Fiscal period end = FPE



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# *Partnership Income Deferral*

## **Alignment Elections**

- Potential to make alignment election to change year-end of single tier p/s (may or may not align with corporation)
- Potential to make alignment election to make all year-ends of multi-tier partnership same (may or may not align with corporation)
- If multi-tier and don't make alignment election – all p/s deemed to have December 31 Y/E
- Election due by corp filing date for first Y/E after March 22, 2011

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## ***Donation of Public Co. Flow-through Shares***

- Flow thru deduction – grinds ACB
- Past: donate shares and donation amount equal to FMV of shares and no taxation of “gain” realized
- Shares issued to a taxpayer under a flow-through share agreement entered into on or after March 22, 2011 subject to new treatment
- Exemption from capital gains tax now only available in respect of portion of gain on proceeds in excess of original cost of share

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# *Kiddie Tax on Capital Gains*

## **Changes to Kiddie Tax**

- “Tax on split income” rules (the “kiddie tax”) are extended to apply to capital gains realized by or included in the income of a minor
  - Non-arm’s length dispositions if dividends subject to “kiddie tax”
  - Capital gain deemed to be a non-eligible taxable dividend (taxed at 27.71%)
- This measure will apply to capital gains realized after March 21, 2011.

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## ***RRSP Anti-Avoidance Rules***

### **Changes in RRSP Rules**

- Anti-avoidance rules to prevent aggressive tax planning strategies, including those that enable RRSP annuitants to access their RRSP funds without including these amounts in income.
- Anti-avoidance rules for RRSPs and RRIFs expanded by introducing rules similar to “advantage,” “prohibited investment” and “non-qualified investment” rules applicable to Tax-Free Savings Accounts.
- Definition of *Prohibited investment* and *Non-qualified investment*
  - *Prohibited includes 10% direct and related ownership of investment*
  - *Penalty tax for advantage = to advantage/benefit obtained and for prohibited investments = 50% of investment*

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# ***Tax Rates***

## **Corporate Income Tax Rates**

- 2011 federal general rate is at 16.5% (combined 26.5% in AB)
- As previously announced, federal general rate will drop to 15% by 2012 (combined 25% in AB)
- Small business rate 14% (combined)
- Dividend gross up and tax credit rates being reduced to reflect lower corporate tax rates (maintains integration - as corporate rates drop, personal tax rate on dividends increases to offset).

## ***Combined Corporate Income Tax Rates***

	General AB %	Small Business AB %	AB Small Business Threshold
2009	29 (19+10)	14 (11+3)	460,000
2010	28 (18+10)	14 (11+3)	500,000
2011	26.5 (16.5+10)	14 (11+3)	500,000
2012 and thereafter	25 (15+10)	14 (11+3)	500,000

- *Combined corporate rate in 2007 was 32.12% (22.12 + 10.00)*
- *Combined corporate rate in 2001 was 42.11% (28.12 + 13.99)*
- *Consider declining benefit of prior year losses*

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## ***Integration and Tax Rates – Bonus or Dividend?***

**“Should we pay a dividend or bonus down  
to the small business limit?”**

# Integration - Bonus vs. Dividend

2011	Small Business Income (up to		
	Active Income	\$500K)	Capital Gains
Income Earned	10,000	10,000	10,000
<b>Earned Through a Corporation</b>			
Corporate Tax	(2,650)	(1,400)	(2,233)
Corporate retained earnings	7,350	8,600	7,766
Personal Tax on Dividend	(1,143)	(2,383)	(1,136)
Net After-Tax Cash	6,057	6,217	7,964
<b>Earned Personally (or bonused)</b>			
Personal Tax	(3,900)	(3,900)	(1,950)
Net After-Tax Cash	6,100	6,100	8,050
<b>Corporate tax deferral</b>			
Deferral of personal tax as a %	1,250	2,500	(283)
	12.5%	25.0%	(2.83%)
Overall (cost) savings of using a corporation	(0.43%)	1.17%	(0.86%)

---

## ***Integration – Bonus vs. Dividend***

### Conclusions:

Under all categories, income is generally taxed at 39% (19.5% for capital gains) whether earned personally or through a corporation.

- Generally no penalty for earning income through a corporation, paying corporate tax and paying dividend later
  - No need to bonus down
  - Defer personal tax by deferring dividend
  - Allows corporation to reinvest funds in business

---

## *Dividend rates for individuals*

	Eligible %	Ordinary %
2009	14.55	27.71
2010	15.88	27.71
2011	17.72	27.71
2012	19.29	27.71

- Eligible dividends – elected to be paid from general rate income pool (high rate)
- Ordinary dividends – dividends other than eligible

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## ***Recent Income Tax Changes***

### **Current Prescribed Rates**

- Interest rate charged on overdue taxes, Canada Pension Plan contributions, and Employment Insurance premiums - 5%.
- Interest rate paid on corporate taxpayers overpayments - 1%.
- Interest rate paid on non-corporate taxpayers overpayments - 3%.
- Interest rate used to calculate employee/shareholder taxable benefits on interest-free and low-interest loans - 1%.
- Interest rate for loans between spouses to avoid attribution - 1%

*7<sup>th</sup> Annual PCS  
Business Update*

**Scott McDonald**

*PwC*

Emerging Trends in  
Real Estate

# *Emerging Trends In Real Estate*

Fall 2011

*7<sup>th</sup> Annual PCS  
Business Update*

**Candace Wilson**  
**Carlie Persson**

*PwC*

Accounting Update

Private Company Services  
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# *Accounting update for Private Enterprises*

Fall 2011

**pwc**

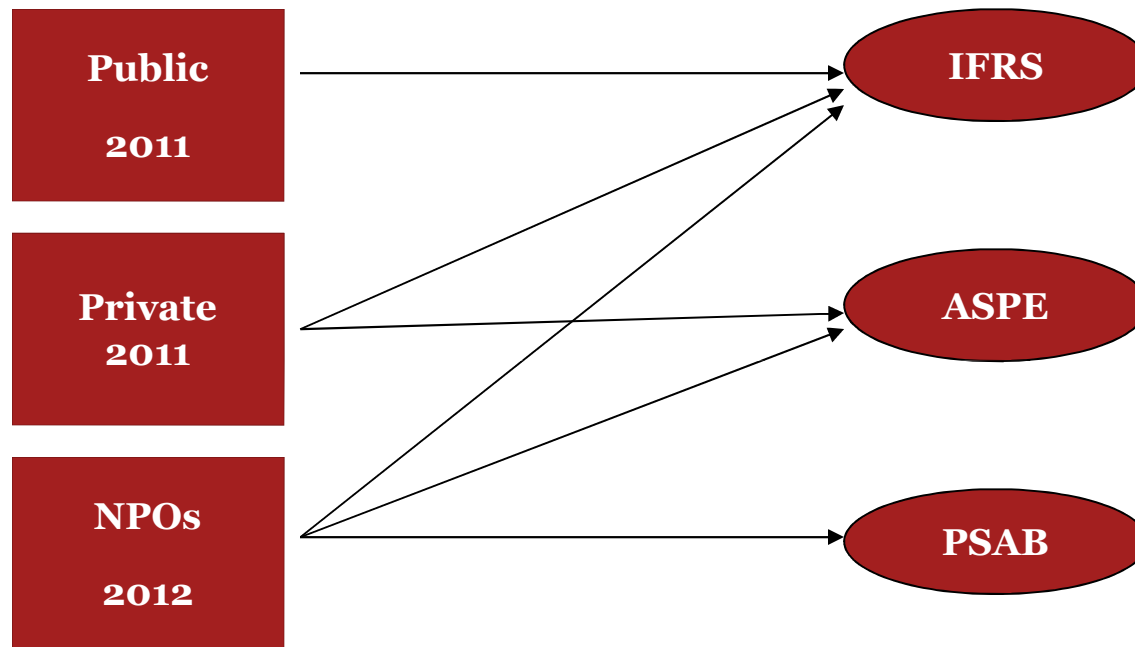
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## *Overview*

- The Evolving Canadian GAAP Framework
- Overview of ASPE
- Preparing for Transition
- The Future Plans for ASPE

# *The Evolving Canadian GAAP Framework*

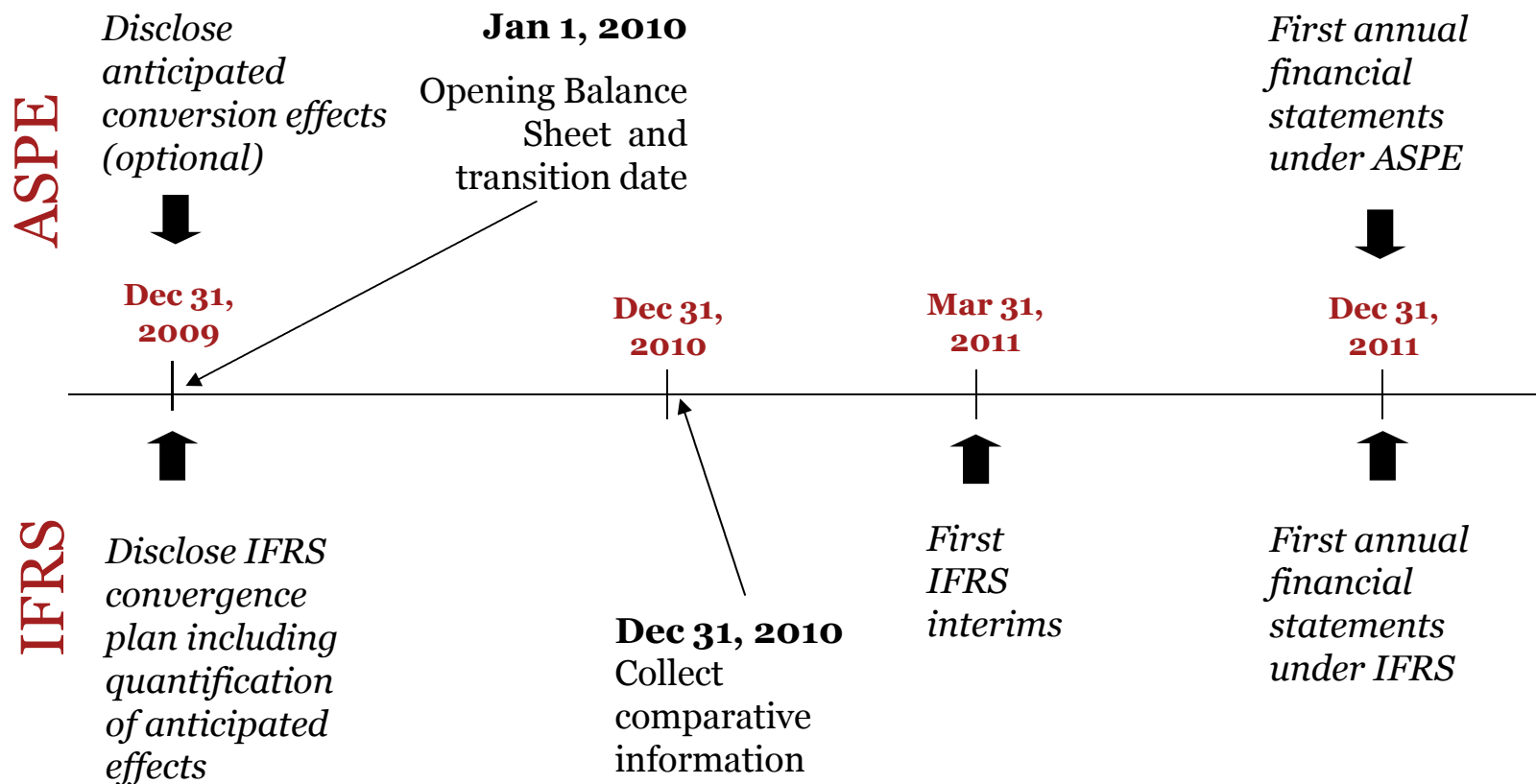
# *Financial reporting options – ASPE or IFRS?*



## *The Canadian GAAP framework*

	2011	2012	2013 and beyond
Private Companies	IFRS <b>or</b> Part II Canadian GAAP - ASPE		
All publicly accountable entities other than:	Part I -IFRS		IFRS including mandatory adoption of major new IFRS standards
Investment funds and companies	Part V - Canadian GAAP		
Rate-regulated enterprises	Part V- Canadian GAAP	IFRS	
Pension Plans	Part IV- Canadian GAAP (Section 4600 plus IFRS <b>or</b> ASPE)		
Private sector not-for-profit organizations	Part V- Canadian GAAP	IFRS <b>or</b> Part III Canadian GAAP	
Government not-for-profit organizations	Part V- Canadian GAAP	PSA Handbook <b>or</b> PSA Handbook & PS4200	

# Key dates and milestones for Canadian profit-oriented enterprises (for a calendar year end company)



# *Overview of ASPE*

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## *ASPE principles*

### **Guidance Simplified**

- Financial instruments
- Asset retirement obligations
- Subsidiaries and affiliates
- Employee future benefits
- Future income taxes
- Goodwill and intangible assets
- Business combinations
- Investments
- Impairment testing

### **Guidance Deleted**

- Differential Reporting
- Segment Disclosures
- Interim FS
- Extraordinary Items
- Earnings per Share
- Life Insurance Enterprises — Specific Items
- Future-Oriented Financial Info
- “Enterprises in Development Stage”

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# ***Financial instruments***

## Section 3856

- Initial recognition at fair value – unless resulted from certain related party transactions
- Subsequent measurement at fair value through P&L:
  - Free standing derivatives\*
  - Equity securities quoted in active market
  - Financial assets and liabilities designated at fair value (irrevocable)
- Measure other instruments at cost or amortized cost

*\*Limited exception for derivatives that are linked to, and must be settled by delivery of, equity instruments of another entity whose fair value cannot be readily determined.*

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## ***Financial instruments***

### Section 3856 (cont'd)

#### **Impairment**

- Financial assets at cost or amortized cost are assessed for indicators of impairment
- If an indicator of impairment, and significant adverse change in timing or amount of future cash flows, write-down to highest of:
  - The present value of the cash flows
  - The amount that could be realized by selling the asset, or group of assets, at the balance sheet date; and
  - The amount the entity expects to realize by exercising its right to any collateral
- Reversals of impairment are permitted

---

## ***Financial instruments***

### Section 3856 (cont'd)

#### **Debt/equity classification**

- Preferred shares set up in a tax planning arrangement classified as equity
- Simplified method for compound instruments (e.g. convertible debt) choice to:
  - Measure equity component at zero
  - Use residual method for less reliably measureable component

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## *Financial instruments*

### Section 3856 (cont'd)

#### **Hedging**

- Hedge accounting has been simplified
- Permitted only for certain types of hedged risks and where the critical terms of the hedging instrument match those of the hedged item

**Important to note that not all hedging relationships designated under Part V can be carried forward!**

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## ***Financial instruments***

### Section 3856 (cont'd)

#### **Transition**

- Option to apply Section 3856 to opening balance sheet, rather than retrospectively; adjustments taken to retained earnings
- Optionally designate any financial instrument at fair value
- Mandatory exception for derecognized financial assets and liabilities
- Special transition provision to retrospectively designate hedging relationships

## ***Investments in other entities***

Sections 3051, 3055 and 1590

Accounting policy choice:

	<b>Significant Influence</b>	<b>Joint Ventures</b>	<b>Subsidiaries</b>
Cost *	✓	✓	✓
Equity	✓	✓	✓
Proportionate consolidation		✓	
Consolidation			✓

*\*If investee shares are publicly traded, use fair value instead of cost*

---

## ***Investments in other entities***

### Sections 3051, 3055 and 1590 (cont'd)

- All investees in each category must be accounted for using the same method
- Where an entity has a policy to consolidate subsidiaries, AcG-15 should be considered
- Ensure consistent application of accounting policies across entities within the consolidated group
- Investments accounted for using cost or equity method need to be tested for impairment

---

## ***Investments in other entities***

Sections 3051, 3055 and 1590 (cont'd)

### **Impairment**

- Assess each period for indicators of impairment
- Consider if significant adverse change in expected timing or amount of future cash flows
- Does not follow “other than temporary decline” in value test
- Ability to reverse the impairment charge taken

---

# ***Business combinations and consolidation***

Sections 1582, 1601 and 1602

Guidance has substantially changed in the areas of:

- Recognition and measurement of certain items
- Accounting for non-controlling interests
- Bargain purchase price
- Measurement of consideration including contingent consideration
- Accounting for acquisitions achieved in stages

---

## ***Business combinations and consolidation***

Sections 1582, 1601 and 1602 (cont'd)

### **Definition of business**

- The definition of business has been broadened
- A business is now defined as “integrated set of activities and assets that is capable of being conducted and managed for the purposes of providing return in the form of dividends, lower costs or other economic benefits directly to investors or other owners”
- Entities in the development stage may now meet the definition of a business under new standards

---

## ***Business combinations and consolidation***

Sections 1582, 1601 and 1602 (cont'd)

### **Recognition and measurement**

- Now measured using acquisition method instead of purchase method
- Acquired assets and liabilities to be measured at fair value on acquisition date (certain exceptions)
- Fair value determined in accordance with its use by other market participations
- If identifiable net assets exceed purchase price, resulting gain is recognized in net income (bargain purchase)

---

## ***Business combinations and consolidation***

Sections 1582, 1601 and 1602 (cont'd)

### **Recognition and measurement (cont'd)**

- Contingencies are recognized at fair value
- Non-controlling interest measured at either the fair value of those interests or the proportionate share of identifiable net assets (will affect resulting goodwill)
- Contingent consideration is measured at fair value as at acquisition date
- Specific guidance to deal with subsequent measurement of reacquired rights, contingent liabilities, contingent considerations
- Transactions costs incurred are expensed in the period

---

## ***Business combinations and consolidation***

Sections 1582, 1601 and 1602 (cont'd)

### **Non-controlling interest**

- Presented within equity
- Allocation of income to NCI is presented as changes in equity account (i.e. does not impact net income)
- Net income (loss) is attributed to owners of parents and NCI even if results in NCI having deficit

---

## ***Business combinations and consolidation***

Sections 1582, 1601 and 1602 (cont'd)

### **Change in interests held**

- Upon obtaining control, previously held interests measured at fair value (step by step acquisition)
- Changes that do not result in loss of control – capital transaction
- Control is lost – results in P&L gain / loss

---

## ***Business combinations and consolidation***

Sections 1582, 1601 and 1602 (cont'd)

### **Transition**

- Exemption from retrospective application for business combination prior to date of transition
- Where exemption is applied:
  - Original classification is maintained
  - Items recognized under CGAAP that do not qualify for recognition under ASPE are derecognized
  - Items that meet ASPE recognition standards are recognized
- Business combinations in comparative period need to comply with Section 1582

---

# ***Goodwill and intangibles***

## Section 3064

- Policy choice for qualifying development costs:
  - Expense as incurred
  - Capitalize
- Impairment of indefinite life intangibles and goodwill:
  - Test when events or changes in circumstances indicate asset may be impaired.
  - Simplified test for goodwill
  - Impairment charges are not reversed

---

## ***Income taxes***

### Section 3465

- Accounting policy choice:
  - Future income taxes method
  - Taxes payable method (guidance now included)
- Change in accounting for taxes associated with business combinations
  - Future tax assets of the acquirer are not recognized as part of the business combination
  - Subsequent recognition of acquiree future tax assets are recorded as part of income tax expense (unless in measurement period)

---

## ***Employee future benefits***

### Section 3461

- Policy choice for defined benefit plans:
  - immediate recognition
  - deferral and amortization
- Same accounting policy required for all defined benefit plans

---

## ***Employee future benefits***

### Section 3461 (cont'd)

#### **Immediate recognition approach**

- An entity determines the accrued benefit obligation (ABO) based on an actuarial valuation report prepared for funding purposes (if available)
- Immediate recognition of actuarial gains/losses

#### **Deferral and amortization approach**

- An entity determines the accrued benefit obligation (ABO) based on an actuarial valuation report prepared specifically for accounting purposes
- Actuarial gains/losses are deferred and amortized
- Substantially the same as existing C-GAAP

---

## *Employee future benefits*

### Section 3461 (cont'd)

#### **Transition**

- Optional exemption to recognize all cumulative actuarial gains and losses at the date of transition
- Can elect, even if intend to use deferral method going forward
- Need to apply election to all plans
- If immediate recognition policy used, apply to comparative periods

---

# ***Asset retirement obligations***

## Section 3110

- Measured at best estimate of expenditure required to settle the obligation
- Guidance on this included in the standard
- Standard does not specify how discount rate is determined

---

# ***Asset retirement obligations***

## Section 3110 (cont'd)

### **Re-measurement**

- Re-measurement of the liability is required at each balance sheet date
- Adjustments may be required due to the following:
  - Passage of time
  - Revisions in the timing or amounts of estimates of undiscounted cash flows
  - Changes in the discount rate

---

# ***Asset retirement obligations***

## Section 3110 (cont'd)

### **Transition**

- Optional exemption to measure ARO at date of transition
- Carrying amount of related asset is adjusted based on the original and remaining life of the asset
- The difference between the change in the obligation and the change in the carrying amount of the related asset is charged to opening retained earnings

---

# ***Stock-based compensation***

## Section 3870

- Minimum value method replaced with the calculated value method of accounting for stock-based compensation
- Volatility cannot be excluded
- Additional guidance included to determine volatility
- Under the calculated value method, sector index is used to calculate volatility

---

## ***Stock-based compensation***

### Section 3870 (cont'd)

#### **Transition**

- Optional exemption to retrospective application of calculated value method to instruments granted or issued prior to date of transition
- Disclosure requirements still applicable to these awards

# *Preparing for Transition*

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## ***First-time adoption***

### Section 1500

- Generally requires full retrospective application of all ASPE standards
- Transition differences between CGAAP and ASPE will be recognized directly in retained earnings
- Certain mandatory exceptions and optional exemptions to retrospective application
- Provides information that can be generated at a cost that does not exceed the benefit to users

---

## ***First-time adoption***

### Section 1500 (cont'd)

#### **Optional exemptions**

- Financial instruments
- Business combinations
- Employee future benefits
- Cumulative translation differences
- Share-based payment transactions
- Asset retirement obligations
- Related party transactions
- Property, plant and equipment

#### **Mandatory exceptions**

- De-recognition of financial assets and financial liabilities
- Hedge accounting
- Estimates
- Non-controlling interests

---

## ***First-time adoption***

### Section 1500 (cont'd)

#### **Transitional disclosure**

- Sufficient detail to enable users to understand material adjustments to balance sheet and income statement
- Amount of each charge to retained earnings at the date of transaction
- Reconciliation of net income for the comparative period
- Optional exemptions used
- Significant accounting policies adopted
- Explanation of material cash flow statement adjustments

# ***First-time adoption***

## **Section 1500 (cont'd)**

### **Balance sheet**

- January 1, 2010
- Restated December 31, 2010
- December 31, 2011

### **Income statement**

- Restated December 31, 2010
  - December 31, 2011
- \* *Require reconciliation of previously reported December 31, 2010 CGAAP net income to net income restated under ASPE*

### **Statement of Cash Flows**

- Restated December 31, 2010
  - December 31, 2011
- \* *disclose material adjustments*

### **Statement of Retained Earnings**

- Restated 31 December 2010
  - December 31, 2011
- \* *disclose amount of each charge/credit to RE from transition*

# *The future plans for ASPE*

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## *What are the future plans for ASPE?*



Accounting Standards Board (“AcSB”) has stated that accounting standards need to change in order to maintain the quality and credibility of private enterprise financial statements

- Generally AcSB expects to make major changes only every one to two years
- Minor changes to be made through annual improvements process – Handbook updated in October for 2011 improvements
- AcSB announced seven “major” improvement projects to Part II of the CICA Handbook

---

## ***2011 Annual improvements***

This year's annual improvements cover the following topics:

★ Requirement to designate one set of financial statements as general purpose

★ Clarification of the requirement to expense certain advertising and promotional activities

★ Clarification of the meaning of date of completion of financial statements

★ Amendments to the requirements for hedge accounting

All changes are effective for periods beginning on or after January 1, 2011

## *ASPE under development*

Private Enterprises	Estimated Publication Date			
	2011		2012	
	Q3	Q4	H1	H2
2012 Improvements			ED	HB
2013 Major Improvements				
Agriculture				ED
Consolidation			ED	
Discontinued Operations				ED
Employee Future Benefits		ED		
Fair Value Measurements			ED	
Financial Statements Concepts		ED		
Joint Arrangements			ED	

ED – Exposure Draft  
HB – Final Handbook Release

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# *Thank You.*

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