

# Private Enterprise GAAP or IFRS?

Canadian private enterprises will soon need to make the choice

Canadian publicly accountable enterprises will be required to use International Financial Reporting Standards (IFRS) for fiscal years beginning January 1, 2011. What about Canadian private enterprises? One thing is for sure, private enterprises can no longer sit on the sidelines.

Private enterprises will have an option to adopt one of the two following sets of standards:

- International Financial Reporting Standards (IFRS)
- Canadian GAAP for Private Enterprises (Private Enterprise GAAP)

Both standards would be effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption of the above standards is possible.

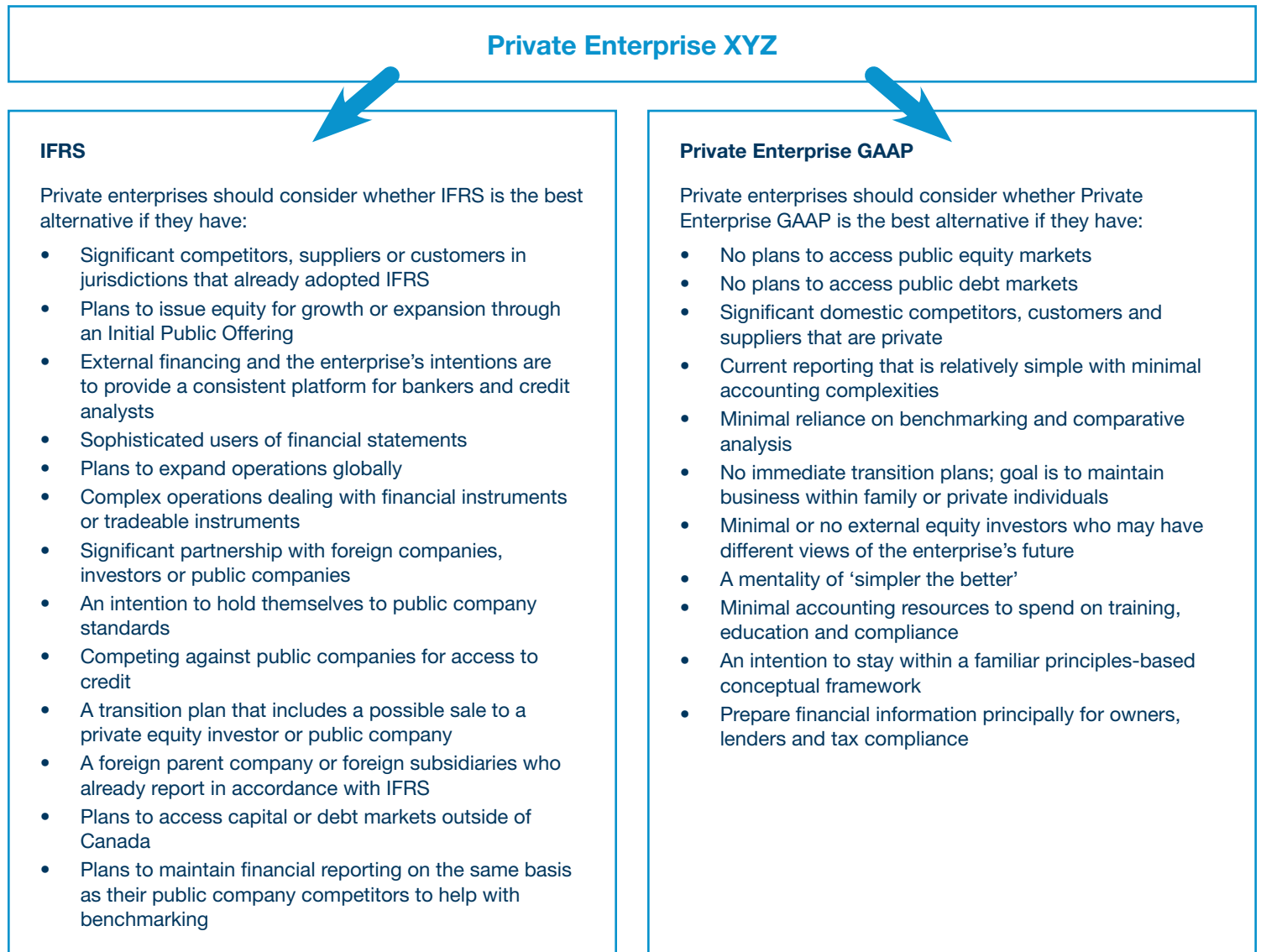
## **Which set of standards is the best choice for your enterprise?**

The decision will not be easy as there are many variables that a private enterprise will need to consider before making the final decision. Let's take a look at the various factors which may affect Canadian private enterprises in trying to determine which accounting standard to adopt.



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The following is a decision tree which will help the thought process in determining which standard to adopt.



## Need to talk?

PricewaterhouseCoopers has unparalleled experience in advising private companies on financial reporting matters. Over 65% of the clients we work with across Canada are private companies and we have resources dedicated to understanding the issues faced by private companies. We have also assisted many of the more than 12,000 companies that have already made the transition to IFRS and have industry focused teams in Canada working on IFRS conversion projects.

So whichever choice you make, or if you need help making the right choice for your company, we can guide you through developing an appropriate conversion strategy and related timeframe.

Now that you have assessed some of the specific considerations for your private enterprise, let's have a look at a sample of general advantages and disadvantages of the two standards.

## Advantages

### IFRS

- Generally accepted as more relevant, understandable, reliable and comparable on a global basis
- Follow the path of Canadian public companies
- May provide a competitive advantage against local Canadian enterprises who fail to adopt globally-harmonized standards
- 100 countries across the globe use IFRS, including majority of members of the G8
- SEC considering plans to make IFRS mandatory for US public companies by 2014
- Long-term financial reporting benefits – IFRS are here to stay
- Generally supported by finance executives around the world
- Comprehensive, principle-based standards (like current Canadian GAAP)
- Similar conceptual framework as Canadian GAAP, including recognition and measurement principles
- Offer more accounting policy choices than Private Enterprise GAAP
- Contain several transitional elections to simplify retrospective application

### Private Enterprise GAAP

- Based on today's Canadian GAAP (retains its conceptual framework and many of its existing measurement and recognition principles), with several simplifications
- Potentially the simplest route from the available options (although transition may still be complex)
- Canadian marketplace is familiar with the framework
- Taxes payable method allowed (disallowed under IFRS)
- Unanimous shareholder approval will no longer be required for differential reporting options (no differential reporting under IFRS)
- More emphasis on historical cost
- Likely the best route if no plans to access public equity or debt markets
- No size restriction - any private business can use Private Enterprise GAAP regardless of size
- Several transitional elections to simplify retrospective application
- Disclosure requirements less than under IFRS

## Disadvantages

### IFRS

- Direct and indirect cost of converting to IFRS can be significant (staff retraining/information systems/internal controls/terms of contracts involving financial measures)
- Many differences between current Canadian GAAP and IFRS
- IFRS are more principles based and, as such, there are fewer bright lines and rules
- Contracts such as banking agreements and executive compensation arrangements may need to be renegotiated
- Users must be educated as to what the changes in the company's financial reporting protocols mean
- Depending on complexity, conversion to IFRS can be a fundamental change for an enterprise
- The process may be lengthy and may require careful project management and significant investment
- One-time disclosure requirements associated with the enterprise's initial reporting under IFRS

### Private Enterprise GAAP

- Private Enterprise GAAP differs from current Canadian GAAP
- Present challenges in accessing equity and debt financing if there is inadequate comparability of financial reporting under IFRS and Private Enterprise GAAP
- Contracts such as banking agreements and executive compensation arrangements may need to be renegotiated
- One-time disclosure and presentation requirements associated with the company's initial reporting under Private Enterprise GAAP
- Overall effectiveness will be reviewed after standards have been in place for several years
- Probably not a long-term solution (Private Enterprise GAAP may ultimately evolve to IFRS)

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