

GAAP or IFRS?

An important choice
to be made by private companies



The Canadian Accounting Standards Board (AcSB) has released an exposure draft on the proposed generally accepted accounting principles for private enterprises (Private Company GAAP) in Canada. Private companies will have a choice between adopting these new standards or International Financial Reporting Standards (IFRS) starting in 2011.

Which set of standards is the best choice for your company?

The exposure draft

- The exposure draft has been developed in line with the AcSB's strategic plan to develop standards based on what is important to users, recognizing that "one size does not necessarily fit all".
- The new standards are based on existing Canadian GAAP. Current standards have been revised or replaced and various existing requirements have been excluded.
- Private Company GAAP would be required for years beginning on or after January 1, 2011. However, it is expected that the standards will be issued in time to permit their use for 2009 calendar year-end financial statements, should companies wish to early adopt.
- The new standards have been developed to provide a cost-effective choice for private companies without compromising the quality of the financial information. This is achieved through a more simplistic approach, greater clarity and reduced amounts of disclosure.

How will this impact financial reporting for Canadian private companies?

The overall impact will be to simplify the existing financial reporting requirements, principally in the following areas:

- Financial instruments
- Asset retirement obligations
- Subsidiaries and affiliates
- Employee future benefits
- Future income taxes
- Goodwill and intangible assets

Some notable aspects of the proposed standards include:

- Accounting for financial instruments is simplified significantly. Other than equity investments with a quoted market price or stand-alone derivative instruments (such as forward contracts not designated as hedges) which would be measured at fair market value, financial instruments will be accounted for at historical cost or amortized cost.
- Stock-based compensation expense will still need to be recorded based on the fair value of option grants.
- There is currently a separate standard which provides various differential reporting options. These options are now incorporated within the specific standards to which they relate under Private Company GAAP and unanimous consent of shareholders is no longer required.
- Rules relating to first time adoption which will provide a one-time opportunity to revalue certain assets.
- Emerging Issues Committee (EIC) Abstracts have been excluded; to the extent there was guidance that is deemed applicable to private companies, it has been included within the proposed standards.
- The proposed standards reduce the disclosure requirements by approximately half.

How does this compare to IFRS?

- IFRS is the emerging global financial reporting framework.
- It provides a common financial reporting platform for companies and has gained acceptance in many countries around the world.
- IFRS does not currently cater specifically to private companies. However, the International Accounting Standards Board (IASB) has also recently published an exposure draft of an IFRS specifically designed for private companies. The objective of this project is also to develop standards which expressly meet the financial reporting needs of entities with no public accountability.
- It is possible that Private Company GAAP will move towards harmonization with IFRS for private companies in the future.

What is the best choice?

Canadian private companies will need to make a choice between Private Company GAAP and IFRS by 2011.

The decision around which option to choose will revolve around who the users of the financial statements are going to be and the cost-benefit implications.

For many private companies that are closely held, financed locally and are not planning to access public equity or debt markets, Private Company GAAP will likely be the best choice.

However, you should consider whether IFRS may be the best alternative if you:

- have an exit strategy that could involve acquisition by an IFRS reporter or private equity interest
- are considering going public
- have suppliers or customers in jurisdictions that have adopted IFRS
- are a subsidiary of a Canadian publicly accountable entity (PAE) which will be transitioning to IFRS in 2011 or an existing IFRS parent
- have international operations and multiple sources of financing
- have banking arrangements that may require IFRS
- have competitors which use IFRS
- voluntarily hold yourselves to PAE reporting standards

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.



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