

Accounting Standards for Private Enterprises

# A Guide to Understanding Transitional Options and Accounting Policy Choices

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# TABLE OF CONTENTS

Introduction.....	1
Effective date .....	2
Decision to be made on initial application:	
<b>1</b> Choosing the transitional options available on first-time adoption that are most relevant for the entity .....	3
<b>1.1</b> First-time adoption .....	3
<b>1.2</b> Business combinations.....	5
<b>1.3</b> Fair value of property, plant and equipment.....	9
<b>1.4</b> Employee future benefits.....	10
<b>1.5</b> Cumulative translation differences.....	11
<b>1.6</b> Financial instruments.....	12
<b>1.7</b> Stock-based payments.....	13
<b>1.8</b> Asset retirement obligations .....	14
<b>1.9</b> Related party transactions.....	15
<b>1.10</b> Exceptions to retrospective application of other standards.....	15
<b>1.11</b> Disclosures .....	17
<b>2</b> Choosing the accounting policies the entity will apply on a continuous basis.....	18
<b>2.1</b> Subsidiaries.....	19
<b>2.2</b> Significantly influenced investees.....	19
<b>2.3</b> Joint ventures.....	20
<b>2.4</b> Internally generated intangible assets — Development costs.....	22
<b>2.5</b> Employee future benefits (for defined benefit plans).....	23
<b>2.6</b> Income taxes.....	24
<b>2.7</b> Financial instruments.....	25
Conclusion .....	28
<b>Appendix 1</b> Examples of accounting policy choices and their impact on the financial statements.....	29
<b>Appendix 2</b> Differences between the equity method, consolidation and the cost method for investments .....	38
<b>Appendix 3</b> Example of financial instrument recognition at amortized cost where the instrument includes off-market terms .....	46
<b>Appendix 4</b> Examples of worksheets to determine the amount affecting opening retained earnings upon transition.....	49

## NOTICE TO READER

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# FOREWORD

This publication is intended as a resource to assist readers in understanding the accounting policy choices available under the Accounting Standards for Private Enterprises (ASPEs) (Part II of the *CICA Handbook - Accounting*). Its purpose is to explain the accounting policy choices that management will have to make and the transitional options available when first applying these standards. The *Guide* is also intended to illustrate how these choices might impact a set of financial statements, using a practical case based on a limited number of assumptions.

The explanations provided in this publication are not exhaustive and are not meant to encompass or illustrate all possible accounting policy choices. Readers should consult the ASPEs to fully understand the impact of preparing ASPE-compliant financial statements. It is also important to note that the numerical examples are limited to extracts of fictitious financial statements and do not illustrate all the disclosures that are required upon transition in a first set of financial statements prepared in accordance with ASPEs.

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## INTRODUCTION

This document is intended to help enterprises that will use the new Accounting Standards for Private Enterprises (ASPEs) analyze the various options available and make informed decisions.

These new accounting standards simplify a number of concepts that were previously included in Part V of the *CICA Handbook - Accounting*. The disclosure requirements have been significantly reduced in the new set of accounting standards to take account of the unique private enterprise environment. The concept of differential reporting has been replaced by accounting policy choices or by simplified requirements.

These new standards were also designed to encourage their adoption by enterprises that had previously opted for non-GAAP financial reporting (often used in compilation engagements). Many entities moved away from GAAP because they believed that the costs of presenting GAAP-compliant financial statements outweighed the benefits for users. Under the new standards, the costs to prepare financial statements are lower, which should result in broader application among private enterprises.

Many private enterprises do not have complex transactions. Although it is important for private enterprises to understand the implications of the new standards and how they affect their business, many small businesses applying the pre-changeover accounting standards will not be significantly affected and might see virtually no change to their financial statements.

It is important to understand the options available under the new set of accounting standards before preparing the opening balance sheet. Some of the choices affect the accounting in both current and future years and others apply only to the opening balance sheet presentation on the date of transition to ASPEs.

More specifically, the choices and decisions to be made in applying these standards revolve around the following two questions:

1. What are the transitional options available on first-time adoption of the standards that could be used?
2. What are the main accounting policy choices available in applying ASPE on an ongoing basis and which ones should be selected?

This document summarizes, by decision type, the various options available and provides numerical examples.

When making decisions about the accounting policy choices, private enterprises should communicate with their lenders and other users of their financial statements to ensure their needs for information will be taken into consideration and that they will be aware of the potential changes in the financial statements and their impact on financial ratios and debt covenants.

## EFFECTIVE DATE

Private enterprises that prepare their financial statements in accordance with GAAP and choose not to apply IFRSs will have to apply ASPEs for fiscal years beginning on or after January 1, 2011.

For example:

- An enterprise with a December 31 year end will apply ASPEs for the first time for its financial statements for the year ended December 31, 2011. The implications of this effective date are as follows:
  - the last financial statements issued under pre-changeover accounting standards (or non-GAAP) will be for the year ended December 31, 2010;
  - these financial statements will have to be restated in accordance with ASPEs for comparison with the financial statements for the year ended December 31, 2011;
  - a January 1, 2010 opening balance sheet in accordance with ASPEs will have to be provided;
  - the balance sheet as at December 31, 2011 will have three columns, each prepared in accordance with ASPEs.

Balance sheet as at December 31, 2011	Balance sheet as at December 31, 2010	Opening balance sheet as at January 1, 2010
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# 1 DECISION TO BE MADE: CHOOSING THE TRANSITIONAL OPTIONS AVAILABLE<sup>1</sup> ON FIRST-TIME ADOPTION THAT ARE MOST RELEVANT FOR THE ENTITY

## 1.1 FIRST-TIME ADOPTION (SECTION 1500)

The Accounting Standards for Private Enterprises in Part II of the *CICA Handbook – Accounting* include a section on first-time adoption. This new section was needed to meet one of the objectives of the new standards. The transition to the new standards involves a number of changes in accounting policies. The basic principle underlying Section 1500 is the retrospective application of ASPE requirements and the accounting policy choices made. This may require the restatement of the opening balances and of the comparative financial statements included in the first set of ASPE financial statements. However, to reduce the transition costs, Section 1500 allows entities to elect not to restate certain aspects of the financial statements at the transition date. (The transition date is the beginning of the comparative year in the first ASPE financial statements – January 1, 2010 in the previous example.) These exemptions are optional and will therefore entail choices. In addition, first-time adoption of the standards also requires that certain aspects of the financial statements **not be** restated retrospectively.

First, the accounting policy changes resulting from choices made when transitioning to the new standards will have to be applied and disclosed in accordance with ACCOUNTING CHANGES, Section 1506, and will generally involve retrospective application. Some of the changes that could result from different accounting treatments for certain balance sheet items include:

- a reclassification between liabilities and equity;
- a reclassification of accumulated other comprehensive income, since this concept no longer exists in the ASPEs; or
- a change in the basis of measurement of an asset, for example an investment recognized at cost that must be measured at fair value according to the new requirements.

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<sup>1</sup> Note that while Section 1500 uses the term “exemptions”, this Guide sometimes refer to these exemptions using the term “transitional options” to ensure clarity of the text.

The opening balance sheet for the comparative period will present assets, liabilities and equity as if the entity had always applied ASPEs, except for when one of the exemptions discussed below is applied. It should be noted that the effects of the restatements will be reflected in adjusted opening retained earnings.

The accounting policies selected when preparing the opening balance sheet will subsequently be applied by the entity on a continuous and comparative basis. They may have a significant impact on certain financial statement items and will also affect ratios that are relevant for financial statement users. It is therefore important to take this exercise seriously since it will have a number of impacts now and in the future.

At the date of transition, an entity **may** elect to use an exemption from retrospective restatement for one or more of the following:

- a) business combinations (see paragraphs 1500.10 and .11);
- b) fair value (see paragraphs 1500.12 and .13);
- c) employee future benefits (see paragraphs 1500.14 to .16);
- d) cumulative translation differences (see paragraphs 1500.17 and .18);
- e) financial instruments (see paragraphs 1500.19 to .21);
- f) stock-based payments (see paragraphs 1500.22 and .23);
- g) asset retirement obligations (see paragraph 1500.24);
- h) related party transactions (see paragraph 1500.25).

These are the only exemptions allowed and an entity cannot apply them by analogy to other items. These exemptions may only be applied once, i.e. on first-time adoption.

Let's take a look at each of these elective exemptions in more detail.

## 1.2 BUSINESS COMBINATIONS (PARAGRAPHS 1500.10 AND .11)

### DECISION TO BE MADE

Choose retrospective or prospective application of BUSINESS COMBINATIONS, Section 1582. (See example in Appendix 1, note 2 A).

- The entity has the option of applying BUSINESS COMBINATIONS, Section 1582, prospectively; this means that business combinations prior to the date of transition do not have to be restated at the transition date.
- If the entity chooses to restate a prior business combination, all subsequent business combinations must be accounted for in accordance with ASPE Section 1582.
- Business combinations that occurred in the comparative year must be accounted for using ASPE. If they were not they must be restated.

### PROSPECTIVE APPLICATION

Section 1500 includes an exemption allowing for prospective application of the new guidance on business combinations. The implications of this exemption are as follows:

- The entity will keep the accounting treatment it had applied for its business combinations in its previous financial statements. For example, an entity that used the pooling of interests method for a combination will not have to apply new measurements to the assets and liabilities arising from this transaction.
- The entity that adopts the standards and chooses prospective application recognizes at the date of transition:
  - all assets and liabilities that were acquired or assumed in a past business combination, except for financial assets and liabilities derecognized in prior periods.
- The first-time adopter excludes from its opening balance sheet:
  - any item recognized under previous financial reporting standards that does not qualify for recognition as an asset or liability under ASPEs.
  - any resulting change is accounted for by adjusting retained earnings, unless the change results from an intangible asset that is reclassified as part of goodwill.

Furthermore, prospective application of Section 1582 means the entity will not have to restate non-controlling interests. The impact of the new standards on these interests will be reflected in the December 31, 2010 results, even if this leads to a deficit balance for the non-controlling interests. (In the past, non-controlling interests could never be below zero).

### CLARIFICATION

- ⇒ Some assets acquired and liabilities assumed in the past may not have been recognized because they did not qualify for recognition under the standards applied at that time, but may now meet the recognition criteria under Section 1582.
- ⇒ Some financial assets and financial liabilities may have been derecognized in accordance with the standards applied before the changeover. Even if they no longer qualify for derecognition under Section 1582, they cannot be recognized again, unless they qualify for recognition as a result of a subsequent transaction or event.

### RETROSPECTIVE APPLICATION

- The entity can choose to apply the new Section 1582 retrospectively to all business combinations occurring prior to the transition date.

Alternatively, the entity can choose to retrospectively apply the standard to its business combinations occurring after a certain point in time before the transition.

- The entity can elect to restate one particular business combination as the first to be restated. Business combinations that took place before that first one are not restated, which reduces the cost of looking for information and retrospective application. However, all subsequent business combinations will have to be restated in accordance with Section 1582.

If a first-time adopter restates any business combination to comply with Section 1582, it also applies CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, and NON-CONTROLLING INTERESTS, Section 1602, from the same date of the first restatement. These Sections include major changes from the former Sections that are discussed later in this document.

## COMPARATIVE TABLE OF IMPLICATIONS BASED ON THE CHOICES AVAILABLE

Here are a few examples of potential implications on initial application of Section 1582.

Steps	Retrospective application	Prospective application
Recognize and reclassify transactions that meet the definition of a business combination	X	
Remeasure and account for business combinations	X	
Recognize assets acquired and liabilities assumed that qualify for recognition	X	X
Exclude assets acquired and liabilities assumed that no longer qualify for recognition	X	X
Apply Sections 1601 and 1602 to past business combinations	X	

The above table highlights the fact that retrospective application involves much more work than prospective application. Retrospective application requires access to information on past business combinations, a detailed analysis of this information and recalculation of non-controlling interests, in addition to having to report all of this information based on the accounting policy changes and provisions set out in Section 1500. The cost/benefit of retrospective application requires some consideration.

Some of the differences between Sections 1581 and 1582		
	1581 (before)	1582 (after)
Definition of a business combination	1581.06 (a): "A business combination occurs when an enterprise acquires net assets that constitute a business, or acquires equity interests of one or more other enterprises and obtains control over that enterprise or enterprises."	1582.03 (e): "A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as "true mergers" or "mergers of equals" are also business combinations as that term is used in this Section."
Measurement of assets acquired and liabilities assumed at the acquisition date	The acquirer measures only its share of the assets acquired and the liabilities assumed at fair value. The non-controlling interest share is measured at the carrying amount.	The acquirer measures all assets acquired and liabilities assumed at fair value, and shall measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the identifiable net assets.
Negative goodwill/excess	Allocated on a pro rata basis of non-financial assets.	Recognized in income on the acquisition date.
Acquisition-related costs	Included in the cost of the transaction.	Recognized as an expense on the acquisition date.



### 1.3 FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT (PARAGRAPHS 1500.12 AND .13)

#### DECISION TO BE MADE

Whether or not to revalue one or more items of property, plant and equipment. (See example in Appendix 1, note B).

An entity has the following two possibilities for measuring property, plant and equipment at the transition date. It can:

- measure the selected items of property, plant and equipment at fair value at the date of transition. The fair value will then become the deemed cost of these assets as of that date (no subsequent upward revaluation is permitted);
- measure the carrying amount established in accordance with PROPERTY, PLANT AND EQUIPMENT, Section 3061.

In this way, you could for example revalue one or several buildings at their fair value and continue to use the net carrying amount for your rolling stock.

Note that:

- the revaluation can only be made at the transition date and not in subsequent years;
- the deemed cost is a substitute for the cost or amortized cost (the balance of accumulated amortization disappears at the transition date);
- if a comprehensive revaluation in accordance with COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625, was made before the change-over to ASPEs, the enterprise could use such fair value measurement as the new deemed cost.

Some entities may see a benefit in presenting their property, plant and equipment at fair value on their balance sheet, thus reflecting the current value. However, since this election is only applicable on the transition date, its appeal is limited.

Moreover, there is a cost associated with this election since entities must measure the fair value of these assets for accounting purposes, which generally requires an expert. Other implications arising from this election normally include:

- an increase in assets and equity;
- a reduction of the debt/equity ratio;
- an increase in the subsequent depreciation expense.

It is important to be aware of the implications of this election on net income, especially when agreements, compensation methods or covenants are based on this figure. This election could also have tax implications, in particular regarding the possibility of taking advantage of the tax deduction for small businesses and the rate of investment tax credits.

## 1.4 EMPLOYEE FUTURE BENEFITS (PARAGRAPHS 1500.14 TO .16)

### DECISION TO BE MADE

Entities with one or more defined benefit pension plan will have to decide whether to carry forward unamortized actuarial gains and losses (keep them off balance sheet) or to recognize them on the balance sheet with the corresponding offset in opening retained earnings at the date of transition, **regardless of the accounting policy selected for subsequent years.**

In accounting for employee future benefits under a defined benefit plan, an entity must choose between two accounting policies (see 2.5 in this document). If the entity opts for the deferral and amortization approach, it may also elect to use a “corridor” approach that leaves some actuarial gains and losses unrecognized.

However, at the date of transition, the entity may use the exemption allowed to recognize all cumulative actuarial gains and losses and past service costs in opening retained earnings at the date of transition, even if it uses the deferral and amortization approach for later actuarial gains and losses.

This exemption reduces the transition costs of enterprises that did not use the deferral and amortization approach. Without this exemption, an enterprise that wants to use the deferral and amortization approach and the “corridor” approach would have to recalculate the actuarial gains and losses from the inception of each of its defined benefit plans to determine the cumulative amounts at the date of transition.

If there are unamortized losses, taking this exemption will be positive for future earnings as the losses will no longer have to be amortized into income. However, it will be important to see how this election will impact the enterprise’s finance agreement covenants, since recognizing the actuarial gains and losses in retained earnings could affect certain ratios. If an enterprise uses this election, it must apply it consistently to all plans.

## 1.5 CUMULATIVE TRANSLATION DIFFERENCES (PARAGRAPHS 1500.17 AND .18)

### DECISION TO BE MADE

Whether or not to recognize in opening retained earnings at the date of transition the balance of cumulative translation differences that was included in equity (or in accumulated other comprehensive income under pre-changeover accounting standards).

FOREIGN CURRENCY TRANSLATION, Section 1651, requires the enterprise:

- to classify the differences resulting from the translation of a self-sustaining foreign operation as a separate component of equity;
- on disposal of part or all of a self-sustaining foreign operation, to recognize the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) in the income statement as part of the gain or loss on disposal.

If the enterprise uses this exemption:

- the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition;
- the gain or loss on a subsequent disposal of any foreign operation will exclude translation differences that arose before the date of transition and include subsequent translation differences.

Using this exemption means that the balance of cumulative translation differences included in equity (or in accumulated other comprehensive income under pre-changeover accounting standards) will be recognized in opening retained earnings at the date of transition. Subsequently, Section 1651 will continue to apply and new translation differences will be presented in equity.

The fact that an enterprise has unrealized losses on a foreign operation that it is considering selling in the short term may influence the decision of whether to use this option.

## 1.6 FINANCIAL INSTRUMENTS (PARAGRAPHS 1500.19 TO .21)

### DECISION TO BE MADE

Whether or not to use the exemptions for financial instruments.

FINANCIAL INSTRUMENTS, Section 3856 requires financial instruments to be initially recognized at fair value. In addition, the entity can elect (with a few exceptions) to subsequently measure all financial instruments at fair value. This election is made for each financial instrument (see 2.7 in this document). Section 1500 provides that any adjustments required as a result of recognizing and measuring financial instruments at the date of transition will be reported in the opening balance of retained earnings.

The impact of recognizing financial instruments in accordance with ASPEs could be very different depending on the pre-changeover accounting policies used. An entity that used the standards set out in *CICA Handbook – Accounting XFI*, Part V could be required to recognize significant adjustments in retained earnings given that, under Section 3856, all financial instruments must be initially recognized at fair value. Entities that used *CICA Handbook Part V* with financial instruments had already measured financial instruments at fair value on initial recognition.

The application exemptions for Section 3856 allow the enterprise to:

- not classify a compound financial instrument into separate liability and equity components if the liability component of the instrument is extinguished at the date of transition;
- measure at fair value (in accordance with subparagraph 3856.13(a)) any financial assets and financial liabilities in existence at the date of the opening balance sheet.

The first exemption will have limited use since it concerns only compound financial instruments issued before the date of transition and for which the liability would be extinguished, although the equity component would still exist.

Under the second exemption, at the date of transition, an entity can designate any financial asset or financial liability to be measured at fair value. This means that an entity could, when preparing its opening balance sheet at the date of transition (regardless of whether or not the financial instrument was already recognized), decide whether to subsequently measure any of its financial instruments at fair value. Note that this election is irrevocable.

## 1.7 STOCK-BASED PAYMENTS (PARAGRAPHS 1500.22 AND .23)

### DECISION TO BE MADE

Whether or not to restate stock-based compensation granted or issued prior to the date of transition.

There are two exemptions for stock-based compensation and other stock-based payments:

- Under the first exemption, the entity need not apply the recognition and measurement requirements of STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870 to stock-based compensation granted or issued prior to the date of transition. This exemption is particularly beneficial for enterprises that did not account for stock-based compensation in accordance with pre-changeover accounting standards and whose equity instruments granted are still exercisable at the date of transition. However, these enterprises will have to comply with the applicable disclosure requirements set out in STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870.
- Under the second exemption, an entity that used the minimum value method when awarding stock-based compensation is not required to apply the calculated value method to awards issued prior to the date of transition. This exemption means that enterprises will avoid the additional cost of gathering the information required to remeasure the compensation awarded before the date of transition.

Note that the difference between the minimum value method and the calculated value method is the volatility considered when measuring the fair value of the options. Under the minimum value method, volatility can be excluded in estimating the value of an option. The calculated value method requires the entity to take account of volatility based either on transactions on its own securities or on the historical volatility of an appropriate industry sector index, as proposed in paragraph 3870.A14.

## 1.8 ASSET RETIREMENT OBLIGATIONS (PARAGRAPH 1500.24)

### DECISION TO BE MADE

Whether to apply the requirements of ASSET RETIREMENT OBLIGATIONS, Section 3110, from the date the asset becomes available for use or to measure the obligations at the date of transition based on the original and remaining life of the related asset.

The exemption allowed with respect to the application of Section 3110 applies to enterprises that have never recognized their asset retirement obligations in accordance with this Section. These enterprises may measure the obligations in one of two ways:

- Measure the obligation at the date it was incurred in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110, and accurately calculate the depreciation and accretion expenses to determine the amount to be recognized in the balance of retained earnings. This involves going back in time to determine the exact balances to be recognized in the opening balance sheet upon transitioning to ASPEs.
- Measure the obligation at the date of transition to ASPEs and estimate the carrying amount of the related asset based on the original and remaining life of the asset. The difference between the change in the obligation and the change to the carrying amount of the asset is charged to opening retained earnings at the date of transition. This election involves measuring the obligation at the date of transition and management estimating the adjustment to be made to the amortized cost of the asset (with the difference being recorded as an adjustment to opening retained earnings).
  - This exemption allows an enterprise that did not previously recognize asset retirement obligations on a basis consistent with Section 3110 to calculate the obligation at the date of transition. The enterprise would therefore not have to reconstruct the obligation as of a previous date, 'bump' the carrying amount of the related asset and subsequently amortize the 'bump' for periods prior to the date of transition. This exemption is not available to enterprises that previously recognized asset retirement obligations on a basis consistent with Section 3110 as such enterprises would already have recognized the obligation and the 'bump' in previous financial statements.

## 1.9 RELATED PARTY TRANSACTIONS (PARAGRAPH 1500.25)

### DECISION TO BE MADE

Whether or not to restate related party transactions that were not recognized in accordance with RELATED PARTY TRANSACTIONS, Section 3840 prior to the date of transition.

An enterprise is not required to restate assets and liabilities related to transactions with related parties that occurred prior to the date of transition.

This exemption is interesting for entities that did not prepare GAAP-compliant financial statements and now want to apply the new ASPEs. Without this exemption, tracing the information needed to recognize these transactions retrospectively could prove to be difficult.

## 1.10 EXCEPTIONS TO RETROSPECTIVE APPLICATION OF OTHER STANDARDS

Section 1500 prohibits retrospective application of some ASPE requirements relating to:

1. derecognition of financial assets and financial liabilities (see paragraphs 1500.27 and .28);
2. hedge accounting (see paragraphs 1500.29 and .30);
3. estimates (see paragraphs 1500.31 to .33);
4. non-controlling interests (see paragraph 1500.34).

### DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (PARAGRAPHS 1500.27 AND .28)

- An entity must apply the derecognition requirements prospectively for non-derivative financial assets or non-derivative financial liabilities set out in FINANCIAL INSTRUMENTS, Section 3856. This means that the entity must only apply these standards to transactions occurring on or after the date of transition.

However, an entity may elect a pre-transition date and apply the derecognition requirements retrospectively to transactions that occurred between that date and the opening balance sheet date provided the information needed to recognize the transactions was available when the transactions took place.

### HEDGE ACCOUNTING (PARAGRAPHS 1500.29 AND .30)

- It is prohibited to retrospectively designate as hedges transactions entered into before the date of transition.
- All hedging relationships reflected in the opening balance sheet at the date of transition must qualify for hedge accounting under Section 3856.
- If an entity had previously designated a hedging relationship using criteria set out in paragraph 3856.31, it will have to adjust the carrying amounts of the hedged and hedging items to reflect the amount that would have been recognized had Section 3856 always applied.

Thus, an entity that designates a hedging relationship before the application of the new standards should immediately comply with Section 3856 requirements in order to avoid restatements when preparing the opening balance sheet.

### ESTIMATES (PARAGRAPHS 1500.31 TO .33)

- The opening balance sheet at the transition date will require adjustments of certain items to meet the requirements of ASPEs. It is possible that these items were accounted for by using estimates. In this case, according to ACCOUNTING CHANGES, Section 1506, if the entity obtains new information about these estimates, they should be treated as changes in estimates and any resulting adjustments should be recorded in income for the year affected by such adjustments, rather than with other adjustments in opening retained earnings.
- Some changes in accounting policies triggered by the application of the ASPEs could require the use of estimates that were not previously necessary. These estimates should be based on information available at the date of the opening balance sheet prepared in accordance with the new standards.

### NON-CONTROLLING INTERESTS (PARAGRAPH 1500.34)

- An entity will have to comply with the following requirements of NON-CONTROLLING INTERESTS, Section 1602, prospectively unless it restates its business combinations that occurred prior to the date of initial application of the new standards:
  - the requirements in paragraphs 1602.05 and .06 applicable to changes in the parent's ownership interest in a subsidiary that do not result in a loss of control;
  - the requirements in paragraphs 1602.09 to .12 for accounting for a loss of control over a subsidiary; and

- the requirement in paragraph 1602.14 that income be attributed to the owners of the parent and to the non-controlling interests even if this leads to a deficit balance for the non-controlling interests.
- This means that all these changes will be reflected in the opening balance sheet and the adjustment will be recognized in the balance of retained earnings of this same balance sheet.
- However, an entity may elect to apply the requirements in BUSINESS COMBINATIONS, Section 1582, retrospectively to combinations that occurred before the date of transition. In this case, the entity must also apply the requirements of Section 1602 to restated combinations.

## 1.11 DISCLOSURES (PARAGRAPHS 1500.35 TO .37)

- According to the new standards, entities will be required to disclose the following information in their first complete set of financial statements prepared in accordance with ASPEs:
  - the amount of each charge to retained earnings at the date of transition resulting from the adoption of these standards and the reason therefor;
  - a reconciliation of the net income reported in the entity's most recent previously issued financial statements to its net income under ASPEs for the same period that clearly indicates the reasons for the changes;
  - material adjustments made to the cash flow statement (if it was previously presented);
  - exemptions the entity used.
- If there is no change to net income or to retained earnings as a result of adopting ASPEs, a statement to that effect might be made in place of a reconciliation. An entity may have changes that are not material and, therefore, might consider not providing the reconciliations. The entity should also consider the requirement in paragraph 1400.05 to "provide sufficient information about the extent and nature of transactions or events having an effect on the entity's financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect" and whether the adoption of accounting standards for private enterprises is an event that requires disclosure about the effects of adoption even though they are not material.

**Appendix 1** uses a fictitious case, ABC Ltd., to provide examples of notes and exhibits illustrating how certain disclosures should be presented when issuing the first complete set of financial statements prepared in accordance with ASPEs. Note that this example does not present a complete set of financial statements or all the disclosures required upon adoption of the new standards.

**Appendix 4** proposes working papers to assist in establishing the opening balance sheet and the reconciliation of net income based on the elections available under Section 1500.

## 2 DECISIONS TO BE MADE: CHOOSING THE ACCOUNTING POLICIES THE ENTITY WILL APPLY ON A CONTINUOUS BASIS

### CHOICE OF ACCOUNTING POLICIES

The various accounting policy options available to qualifying companies that adopt ASPEs are set out below:

#### 2.1 SUBSIDIARIES (SECTION 1590)

- Consolidation method
- Equity method
- Cost method

#### 2.2 SIGNIFICANTLY INFLUENCED INVESTEEES (SECTION 3051)

- Equity method
- Cost method

#### 2.3 JOINT VENTURES (SECTION 3055)

- Proportionate consolidation method
- Equity method
- Cost method

#### 2.4 INTERNALLY GENERATED INTANGIBLE ASSETS — DEVELOPMENT COSTS (SECTION 3064)

- Capitalize development costs
- Expense as incurred during the development phase

#### 2.5 EMPLOYEE FUTURE BENEFITS (FOR DEFINED BENEFIT PLANS) (SECTION 3461)

- Immediate recognition approach
- Deferral and amortization approach

#### 2.6 INCOME TAXES (SECTION 3465)

- Taxes payable method
- Future income tax method

## 2.7 FINANCIAL INSTRUMENTS (SECTION 3856)

- Measure financial assets and financial liabilities at fair value
- Measure financial assets and financial liabilities, other than equity securities quoted in an active market and derivatives, at amortized cost

## SUBSIDIARIES, SIGNIFICANTLY INFLUENCED INVESTEEES, JOINT VENTURES

Before the ASPEs became effective, the policy choices described below already existed under differential reporting. These choices were integrated into the new standards.

### 2.1 SUBSIDIARIES (SECTION 1590)

#### DECISION CONCERNING INVESTMENTS IN SUBSIDIARIES:

For subsidiaries, an entity shall adopt one of the following accounting methods (1590.15):

- Consolidation method
- Equity method
- Cost method.

The method selected shall be applied to all the subsidiaries.

The implications of these accounting policy choices on financial data are presented in **Appendix 2**.

### 2.2 SIGNIFICANTLY INFLUENCED INVESTEEES (SECTION 3051)

#### DECISION CONCERNING INVESTMENTS IN SIGNIFICANTLY INFLUENCED INVESTEEES:

For investments in an entity subject to significant influence, an enterprise shall account for its investment according to one of the following two methods:

- Equity method
- Cost method.

The method selected shall be applied to all significantly influenced investees.

## 2.3 JOINT VENTURES (SECTION 3055)

### DECISION CONCERNING INVESTMENTS IN JOINT VENTURES:

For investments in joint ventures, a joint venturer shall account for its investments in joint ventures according to one of the following three methods:

- Proportionate consolidation method
- Equity method
- Cost method.

The method selected shall be applied to all joint ventures.

Accounting policy choices by type of investment			
Accounting methods / Types of investments	Investments in subsidiaries	Investments in significantly influenced investees	Investments in joint ventures
Consolidation	✓	N/A	N/A
Proportionate consolidation	N/A	N/A	✓
Equity	✓	✓	✓
Cost	✓	✓	✓

Observations regarding these methods:

- With consolidation, the economic activity of the entire group is shown on the balance sheet and on the income statement.
- With proportionate consolidation, the economic activity of the entity's interest in the joint venture is included in detail on the balance sheet and on the income statement.
- With the equity method, an amount equal to consolidated income is presented in the income statement. However, the income statement and the balance sheet do not include detailed information for the investee.
- Lastly, while accounting for the investment at cost may be easy, it represents only the acquisition cost of the investment. It is therefore necessary to consult the investee's financial statements to measure the activities of non-consolidated entities or those not accounted for using the equity method.

The following restrictions apply to the choices regarding the three types of investments mentioned above (Sections 1590, 3051 and 3055):

- The same accounting method must be applied for each category of investments (for example, the same treatment must be applied to all subsidiaries).
- For subsidiaries (1590.15) and significantly influenced investees (3051.05) whose equity securities are quoted in an active market, the cost method is replaced by the fair value method.

### IMPAIRMENT OF AN INVESTMENT

At the end of each reporting period, the entity will have to assess whether there are any indications that the carrying amount of an investment may be impaired. If there are none, the entity will not have to test the investment for impairment. Indications of impairment include:

- a sharp drop in business;
- recurring issues with cash flows that could cast doubt on the entity's day-to-day operations;
- major difficulties making debt and interest payments to creditors and suppliers.

When a significant adverse change is identified (3051.21), the entity will have to:

- reduce the carrying amount of the investment, by including a write-down in net income, to the higher of the following amounts:
  - the present value of the cash flows expected to be generated by holding the investment, discounted using a current market rate of interest appropriate to the asset; and
  - the amount that could be realized by selling the investment at the balance sheet date.

However, when events occurring after the impairment has been recognized reduce the extent of impairment, a reversal will have to be recognized in net income. The carrying amount of the investment must not exceed its initial value.

Appendix 2 presents a financial statement comparison of a company that accounts for its investment in a subsidiary according to each of the three following methods:

- Equity method
- Consolidation method
- Cost method.

## 2.4 INTERNALLY GENERATED INTANGIBLE ASSETS – DEVELOPMENT COSTS (SECTION 3064)

### DECISION TO BE MADE

- To capitalize development expenditures (when the asset meets the six criteria for capitalization).
- To expense the expenditures incurred during the development phase (even if the asset meets all the capitalization criteria).

Expenditures incurred during the development phase of an intangible asset may be capitalized as intangible assets if the entity can demonstrate that the following capitalization criteria have been met (3064.41):

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) the entity's intention to complete the intangible asset and use or sell it;
- c) the entity's ability to use or sell the intangible asset;
- d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- e) the entity's ability to measure reliably the expenditure attributable to the intangible asset during its development; and
- f) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

The entity may, however, decide to expense the expenditures incurred during the development phase even if the intangible asset meets all the capitalization criteria.

The accounting method selected must be applied to all expenditures incurred for all internal projects in the development phase.

Note that:

- the decision to expense expenditures incurred during the development phase eliminates the need for internal follow-up and documentation in the case of capitalization, as well as the need to test for impairment;
- the decision to capitalize or not to capitalize impacts net income and the debt/equity ratio;
- observation<sup>2</sup> of past practices shows that:

2 See the "Background Information and Basis for Conclusions," Accounting Standards for Private Enterprises, *CICA Handbook – Accounting*, Part II.

- the criteria used to evaluate whether capitalization of internally generated intangible assets is appropriate rely heavily on management judgment and, in practice, many entities expense such costs;
- financial statement users usually do not attribute much value to internally generated assets and, consequently, expensing or capitalizing these assets has little impact on their decisions.

Financial statement preparers should therefore focus on the relevance of the information provided to users before deciding whether or not to capitalize expenditures incurred during the development phase.

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## 2.5 EMPLOYEE FUTURE BENEFITS (FOR DEFINED BENEFIT PLANS) (SECTION 3461)

### DECISION TO BE MADE

- Immediate recognition approach.
- Deferral and amortization approach.

Entities will be able to account for defined benefit plans using the immediate recognition approach or the deferral and amortization approach.

- The deferral and amortization approach was the method required under the pre-changeover accounting standards.
  - Entities that were already applying this approach can continue to apply it or can use the immediate recognition approach.
  - Entities that did not apply pre-changeover standards can also choose either method; applying the deferral and amortization approach retrospectively could be costly.
- Under the immediate recognition approach, the entity uses an actuarial valuation for funding purposes for balance sheet recognition of the accrued benefit obligation net of the fair value of any plan assets, and recognizes the cost of the plan for the year in net income (this represents the cost of services rendered and past service costs).
- The application of the immediate recognition method is less complex and costly.
- However, this method increases net income volatility, since the entity immediately expenses all changes in plan obligations and assets and all costs arising from past services.
- Nonetheless, this approach does not entail any amortization expense related to past services or to actuarial gains or losses.

## 2.6 INCOME TAXES (SECTION 3465)

### DECISION TO BE MADE

- Taxes payable method.
- Future income tax method.

The entity will have to choose between these two methods (3465.03):

- Taxes payable method:

Under this method, only the amounts receivable or payable during the current year are recognized. However, a number of note disclosures are required, including:

- a reconciliation of the statutory income tax rate and the effective rate in the income statement (in \$ or in %) (3465.88);
- the amount and timing of capital gain reserves and similar reserves to be included in taxable income within five years (3465.88);
- the amount of unused income tax losses carried forward and unused income tax credits (3465.88).

- Future income tax method:

Under this method, future income tax assets and liabilities are presented directly in the financial statements. The tax benefits to which the entity is entitled are also recorded on the balance sheet, in particular those resulting from a carryforward, when they are more likely than not to be realized.

Since the financial statements present current taxes payable and the carrying amount of future income taxes at the balance sheet date, fewer note disclosures are required. However, the following must be added as needed:

- the total amount of unused tax losses and income tax reductions, and the amount of deductible temporary differences, for which no future income tax asset has been recognized (3465.89).

These options are the same as the ones that were available under the differential reporting regime of the pre-changeover accounting standards. The choice of either of these methods will depend on the cost and benefit of providing this information, notably on the entity and the users of its financial statements needs compared to the costs of providing this information and whether these users want income taxes resulting from differences between the accounting basis and tax basis of assets and liabilities to be shown on the face of the balance sheet and income statement.

Note that GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1400, required an entity to provide:

*“[...] sufficient information about transactions or events having an effect on the entity’s financial position, results of operations and cash flows for the periods presented that are of such size, nature and incidence that their disclosure is necessary to understand that effect;”* (par 1400.04(b)).

When using the taxes payable method, the entity must therefore determine whether it is necessary to disclose the extent of the temporary differences for the understanding of the financial statements.

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## 2.7 FINANCIAL INSTRUMENTS (SECTION 3856)

### DECISION TO BE MADE

- To measure all financial assets and financial liabilities at fair value.
- To measure all financial assets and financial liabilities (other than equity securities quoted in an active market and derivatives) at amortized cost.

The ASPEs introduce a single recognition standard for financial instruments. From now on, all enterprises will have to account for their financial instruments in accordance with Section 3856. It may be more of a change for the enterprises that had elected to use the XFI version in Part V of the *CICA Handbook – Accounting* to become competent with the new requirements, which are listed in the following box:

### NEW REQUIREMENTS

- Simplification of financial instrument classification and elimination of comprehensive income.
- Enterprises have the option of ascribing a nil value to the option of converting a financial liability into an equity instrument and of presenting convertible debt entirely as a liability.
- Single value impairment model, when events suggest that the financial instrument may suffer an impairment loss; in addition, impairment losses are reversed when justified;

- Hedge accounting remains optional and has been simplified.
  - Hedge accounting can only be used when the critical terms of the hedging instrument match those of the hedged instrument.
  - The entity is no longer required to assess hedge effectiveness.
  - The entity must continue to apply hedge accounting as long as the hedged item exists.
  - The requirement to formally document the hedging relationship has been downgraded.
  - Designation of transactions as hedge transactions is permitted.
  - The hedging relationship is discontinued when the hedged item is an anticipated transaction and it is no longer probable that the anticipated transaction will occur in the amount designated.

### BASIC RULE

Under the new ASPEs, all financial assets and financial liabilities must be measured at fair value on initial recognition. In most cases, this value should be identical to the price paid for the financial asset or the amount incurred for financial liabilities. However, in some situations, the fair value may be different from the amount initially incurred, for example, when the enterprise takes out an interest-free loan.

### CLARIFICATION

#### LOAN WITH NO INTEREST OR WITH INTEREST BELOW THE MARKET RATE

In general, when a transaction results in a financial liability, the fair value of the instrument corresponds to its nominal value. However, situations exist where the fair value may be different from the nominal value. This is the case, for example, when an entity is granted an interest-free loan. In this situation, the fair value of the loan at the time of granting is below the loan's nominal value. The entity must therefore measure the initial fair value of the loan. A common method consists in discounting the future cash flows relating to the loan using an interest rate based on comparable market data. An appropriate discount rate could be established by:

- reference to an interest rate for a debt instrument with similar characteristics from a same financial institution; or
- reference to the Bank of Canada rate for a bond with a similar term, adjusted to take into account the entity's credit risk.

Appendix 3 provides an application example.

The enterprise's management must make an important decision respecting the subsequent measurement method for each of its financial instruments. It can irrevocably elect one of the following two options:

1. Continue to measure the financial instrument at cost or amortized cost (if applicable).
2. Remeasure the instrument<sup>3</sup> at its fair value at each balance sheet date so that any changes in fair value will be recognized in net income.

Note, however, that if the cost method is used, the financial instrument is initially measured at its fair value at the date of acquisition adjusted by financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption, and the difference between that adjusted cost and the nominal value is amortized over the life of the instrument.

In addition, the rule includes the following exception: investments in equity instruments that are quoted in an active market and derivatives<sup>4</sup> that are not designated in a qualifying hedging relationship will always be recorded at fair value.

Management will have to consider a number of elements before making a decision, including:

- the election of the subsequent measurement at fair value is irrevocable for each financial asset and financial liability;
- fair value provides the best indication of the future cash flows that could result from an enterprise's investment at a given date;
- fair value is a more important figure to financial statement users than cost;
- measurement of some financial instruments could be onerous and expensive. Measuring investments in equity instruments of private enterprises is a good example, since the information required for measurement purposes is not always readily available. In addition, these measurement costs are recurring because this exercise is required at each balance sheet date;
- the fair value of a financial instrument can fluctuate and result in more volatile net income;
- fair value accounting reflects information that quickly becomes obsolete.

<sup>3</sup> This remeasurement applies equally to financial assets and financial liabilities. This means that an entity that elected to measure a financial liability at fair value will have to recognize any changes thereto in income.

<sup>4</sup> Examples of derivatives (fair value measurement required):

- Forwards of a financial institution;
- Swaps (guaranteed interest rates and currencies);
- Stock options on shares quoted in an active market;
- Stock options on shares of a private company to be settled in cash.

## CONCLUSION

Application of the ASPEs involves making choices upon transition that financial statement preparers will have to consider. This document covers the main choices. In order to make the best decisions, it is crucial to understand how the choices allowed will affect the financial statements, the extent of the work involved for each choice and the needs of financial statement users now and in the future. Open communication with users is therefore essential.



## APPENDIX 1

### EXAMPLES OF ACCOUNTING POLICY CHOICES AND THEIR IMPACT ON THE FINANCIAL STATEMENTS

Using a fictitious case, this appendix illustrates examples of accounting policy choices made by ABC Ltd., as well as exemptions used on adoption of ASPEs, information about these choices, and their impact on opening balances. Note that this example does not provide a complete set of financial statements nor all the possible disclosures for an entity adopting the new standards. The example simply illustrates one of the ways certain disclosures may be presented when issuing the first complete set of financial statements prepared in accordance with ASPEs and does not constitute a model financial statement.

ABC Ltd. is a fictitious entity that is applying the Canadian Accounting Standards for Private Enterprises (ASPEs) for the first time. The example includes:

- the non-consolidated balance sheet as at December 31, 2011, with comparative balances as at December 31, 2010;
- the opening balance sheet as at January 1, 2010, i.e. the date of transition to ASPEs;
- the non-consolidated statements of income for the years ended December 31, 2011 and 2010;
- the statement of changes in shareholders' equity as at December 31, 2011 and December 31, 2010;
- extracts from the notes and exhibits describing the accounting policies selected by ABC Ltd. and applied in accordance with ASPEs, and their impact on the financial statements. Note 2 "Impact of the change in the basis of accounting" explains the effects of first-time adoption of ASPEs.

The company has a wholly owned subsidiary it acquired on January 1, 2010 for \$1,375,076. After it was acquired, the subsidiary issued shares on January 1, 2011 to other shareholders for \$385,000, representing a 20% interest. The shares were issued at a price corresponding to the carrying value at that date. For sake of simplification of the example, we made the assumption that the carrying value was a fair estimate of the fair value of the assets acquired and liabilities assumed.

The company elected to use the exemptions allowed under Section 1500 of the *CICA Handbook* relating to the restatement of business combinations, the fair value of property, plant and equipment and the restatement of related party transactions as described in Note 2 "Impact of the change in the basis of accounting." A 20% tax rate is used for purposes of this example.

APPENDIX 1 - 1

**ABC LTD.**  
**NON-CONSOLIDATED BALANCE SHEET**  
**As at December 31, 2011**

	2011	2010	As at January 1, 2010
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 177,844	\$ 150,300	\$ 150,275
Accounts receivable	1,618,454	1,641,921	992,620
Inventories	2,770,188	2,469,536	2,224,150
Prepaid expenses	153,041	173,630	130,433
Foreign exchange contract	103,794	-	91,035
	4,823,321	4,435,387	3,588,513
INVESTMENT IN A SUBSIDIARY	1,593,468	1,547,342	1,375,076
PROPERTY, PLANT AND EQUIPMENT	8,567,409	7,519,370	7,668,792
INTANGIBLE ASSETS	1,010,126	848,067	741,721
	\$ 15,994,324	\$ 14,350,166	\$ 13,374,102
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 2,020,055	\$ 1,555,494	\$ 1,496,525
Interest rate swap	27,245	-	29,796
Future income taxes	15,345	-	12,248
Current portion of long-term debt	851,051	605,753	688,841
	2,913,696	2,161,247	2,227,410
LONG-TERM DEBT	875,248	1,405,135	1,508,197
FUTURE INCOME TAXES	1,123,747	1,033,517	918,295
	4,912,691	4,599,899	4,653,902
<b>SHAREHOLDERS' EQUITY</b>			
<b>SHARE CAPITAL</b>			
Class D shares (redeemable at the option of the holder for \$1,550,000)	1,550,000	1,550,000	1,550,000
Class G shares (redeemable at the option of the holder for \$1,350,000)	400,000	400,000	400,000
Other shares	700	700	700
	1,950,700	1,950,700	1,950,700
RETAINED EARNINGS	9,130,933	7,799,567	6,769,500
	11,081,633	9,750,267	8,720,200
	\$ 15,994,324	\$ 14,350,166	\$ 13,374,102

APPENDIX 1 - 2

**ABC LTD.**  
**NON-CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011	2010
SALES	\$ 17,233,704	\$ 14,490,809
COST OF GOODS SOLD	11,105,575	9,382,460
GROSS MARGIN	6,128,129	5,108,349
EXPENSES		
Selling expenses	2,534,294	2,285,392
Administrative expenses	1,568,913	1,370,458
Financial expenses	113,329	109,961
	4,216,536	3,765,811
INCOME BEFORE INCOME TAXES	1,911,593	1,342,538
INCOME TAXES		
Payable	560,778	381,763
Future	105,575	102,974
	666,353	484,737
INCOME BEFORE EQUITY INTEREST	1,245,240	857,801
Share in net income of subsidiary	86,126	172,266
<b>NET INCOME</b>	<b>\$ 1,331,366</b>	<b>\$ 1,030,067</b>

**ABC LTD.**  
**NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Share capital	Retained earnings	Shareholders' equity
Balance as at December 31, 2009 (note 2)	1,950,700	6,769,500	8,720,200
Net income		1,030,067	1,030,067
Balance restated as at December 31, 2010	1,950,700	7,799,567	9,750,267
Net income		1,331,366	1,331,366
Balance as at December 31, 2011	\$ 1,950,700	\$ 9,130,933	\$ 11,081,633

**ABC LTD.****NOTES TO THE FINANCIAL STATEMENTS (extracts from the non-consolidated financial statements)  
DECEMBER 31, 2011****1. EXTRACT FROM SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises and include the following significant accounting policies:

**Investment in a subsidiary**

The company issues only non-consolidated financial statements and its investment in the subsidiary is accounted for under the equity method.

**Financial instruments****(a) Measurement of financial instruments**

The company initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The company subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value. Forward exchange contracts and interest rate swaps that are not hedging items are measured at fair value. Changes in fair value are recognized in net income.

The fair value of the forward exchange contracts and interest rate swaps was determined based on reports obtained from the financial institution.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and long-term debt.

**(b) Impairment**

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write-down reflects the difference between the carrying amount and the higher of:

- (a) the present value of the cash flows expected to be generated by the asset or group of assets;
- (b) the amount that could be realized by selling the asset or group of assets;
- (c) the net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in net income up to the amount of the previously recognized impairment.

**ABC LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS (extracts from the non-consolidated financial statements)**  
**DECEMBER 31, 2011**

**2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING**

The company elected to apply the Accounting Standards for Private Enterprises, Part II of the Canadian Institute of Chartered Accountants (CICA) Handbook, in accordance with Canadian generally accepted accounting principles.

These financial statements are the first financial statements for which the entity has applied the Canadian accounting standards for private enterprises, hereafter referred to as "ASPEs."

The financial statements for the year ended December 31, 2011 were prepared in accordance with the provisions set out in FIRST-TIME ADOPTION, Section 1500, of the *CICA Handbook*.

The impact of adopting these standards was accounted for in retained earnings at the date of transition, i.e. January 1, 2010.

The company has elected to use the following exemptions when adopting these standards for the first time:

- (a) Apply prospectively, from the date of transition, BUSINESS COMBINATIONS, Section 1582, CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, and NON-CONTROLLING INTERESTS, Section 1602.
- (b) Revalue machinery and equipment and use that fair value as the deemed cost at the date of transition.
- (c) Not restate assets or liabilities related to transactions with related parties that occurred prior to the date of transition.

The impact of these exemptions is reflected in the reconciliation of retained earnings in the balance sheet as at January 1, 2010.

APPENDIX 1 - 5

**ABC LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS (extracts from the non-consolidated financial statements)**  
**AS AT DECEMBER 31, 2011**

**2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)**

		Balance sheet as at January 1, 2010 based on previous financial statements	Changes in retained earnings	Balance sheet as at January 1, 2010 based on ASPEs
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash		\$ 150,275	\$	\$ 150,275
Accounts receivable		992,620		992,620
Inventories		2,224,150		2,224,150
Prepaid expenses		130,433		130,433
Forward exchange contract	<b>C</b>		91,035	91,035
		3,497,478	91,035	3,588,513
INVESTMENT IN A SUBSIDIARY	<b>A</b>	1,415,038	(39,962)	1,375,076
PROPERTY, PLANT AND EQUIPMENT	<b>B</b>	3,525,026	4,143,766	7,668,792
INTANGIBLE ASSETS		741,721		741,721
		\$ 9,179,263	\$ 4,194,839	\$ 13,374,102
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable		\$ 1,496,525	\$	\$ 1,496,525
Interest rate swap	<b>C</b>		29,796	29,796
Future income taxes	<b>D</b>		12,248	12,248
Current portion of long-term debt		688,841		688,841
		2,185,366	42,044	2,227,410
LONG-TERM DEBT		1,508,197		1,508,197
FUTURE INCOME TAXES	<b>D</b>	89,543	828,752	918,295
		3,783,106	870,796	4,653,902
<b>SHAREHOLDERS' EQUITY</b>				
<b>SHARE CAPITAL</b>				
Class D shares (redeemable at the option of the holder for \$1,550,000)		1,550,000		1,550,000
Class G shares (redeemable at the option of the holder for \$1,350,000)		400,000		400,000
Other shares		700		700
		1,950,700		1,950,700
RETAINED EARNINGS		3,445,457	3,324,043	6,769,500
		5,396,157	3,324,043	8,720,200
		\$ 9,179,263	\$ 4,194,839	\$ 13,374,102

APPENDIX 1 - 6

**ABC LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS (extracts from the non-consolidated financial statements)**  
**DECEMBER 31, 2011**

**2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)**

	Income statement for the year ended December 31, 2010 based on previous financial statements		Changes in retained earnings	Income statement for the year ended December 31, 2010 based on ASPEs
SALES	\$	14,490,809	\$	\$ 14,490,809
COST OF GOODS SOLD		9,125,164	257,296	9,382,460
GROSS MARGIN		5,365,645	(257,296)	5,108,349
EXPENSES				
Selling expenses		2,285,392		2,285,392
Administrative expenses		1,370,458		1,370,458
Financial expenses		109,961		109,961
		3,765,811	-	3,765,811
INCOME BEFORE INCOME TAXES AND EQUITY INTEREST		1,599,834	(257,296)	1,342,538
INCOME TAXES				
Payable		381,763		381,763
Future		154,433	(51,459)	102,974
		536,196	(51,459)	484,737
INCOME BEFORE EQUITY INTEREST		1,063,638	(205,837)	857,801
Share in net income of subsidiary		172,266		172,266
NET INCOME	\$	1,235,904	\$ (205,837)	\$ 1,030,067

Net income as at December 31, 2010 based on previous financial statements	\$	1,235,904
Changes in results		
Adjustment to amortization - machinery and equipment <sup>1</sup>		(257,296)
Adjustment to future income taxes due to the revaluation of PPE		51,459
Net income as at December 31, 2010 per ASPE financial statements	\$	1,030,067

**1. Straight-line amortization over 15 years**

		Amortization period in years	Amortization
Cost under old framework	7390557	15	492,704
FV according to ASPEs	7500000	10	750,000
<b>Increase in depreciation expense</b>			<b>(257,296)</b>

The machinery and equipment subject to revaluation were acquired on January 1, 2005.

APPENDIX 1 - 7

**ABC LTD.****NOTES TO THE FINANCIAL STATEMENTS (extracts from the non-consolidated financial statements)**

DECEMBER 31, 2011

**2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)**

The following illustrates the adjustments made to retained earnings as at January 1, 2010 as a result of the transition to ASPEs and taking into account elected exemptions.

**A INVESTMENT IN A SUBSIDIARY**

The company has elected prospective application of Section 1582. The company derecognized the costs related to the acquisition of its XYZ subsidiary that it had included in the purchase price.

	Based on previous financial statements	Changes in retained earnings	ASPEs
100% investment in XYZ Ltd.	\$ 1,415,038	\$ (39,962)	\$ 1,375,076

**B FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT**

The company has elected the exemption in Section 1500, paragraph .12 and has used fair value as the deemed cost at the date of transition. The company therefore revalued its machinery and equipment at fair value at the date of transition.

	Based on previous financial statements	Changes in retained earnings	ASPEs
Property, plant and equipment, at deemed cost			
Machinery and equipment	\$ 3,356,234	\$ 4,143,766	\$ 7,500,000
Property, plant and equipment, at cost less accumulated amortization			
Office equipment and furniture	37,724		37,724
Computer hardware	82,662		82,662
Leasehold improvements	48,406		48,406
	168,792	-	168,792
	\$ 3,525,026	\$ 4,143,766	\$ 7,668,792

APPENDIX 1 - 8

**ABC LTD.****NOTES TO THE FINANCIAL STATEMENTS (extracts from the non-consolidated financial statements)  
DECEMBER 31, 2011****2. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (continued)****C FINANCIAL INSTRUMENTS**

On January 1, 2010, the company measured and recognized at fair value a forward exchange contract and an interest rate swap to satisfy the requirements of Section 3856.

	Based on previous financial statements	Changes in retained earnings	ASPEs
Forward exchange contract – asset	\$ -	\$ 91,035	\$ 91,035
Interest rate swap – liability	\$ -	\$ (29,796)	\$ (29,796)
<b>Total change in retained earnings</b>	<b>\$ -</b>	<b>\$ 61,239</b>	<b>\$ 61,239</b>

**D FUTURE INCOME TAXES**

Accounting for future income taxes (assuming a rate of 20%) resulting from:

Revaluation of property, plant and equipment	\$ (828,752)
Fair value recognition of financial instruments	(12,248)
	<u>\$ (841,000)</u>

**IMPACT ON RETAINED EARNINGS ON TRANSITION**

	Notes	
Retained earnings as at January 1, 2010 based on previous financial statements		\$ 3,445,457
Changes in retained earnings:		
Change in investment in subsidiary	<b>A</b>	(39,962)
Revaluation of machinery and equipment	<b>B</b>	4,143,766
Net change in financial instruments	<b>C</b>	61,239
Net change in future income taxes	<b>D</b>	(841,000)
		<u>3,324,043</u>
		<u>\$ 6,769,500</u>

## APPENDIX 2

### DIFFERENCES BETWEEN THE EQUITY METHOD, CONSOLIDATION AND THE COST METHOD FOR INVESTMENTS

Appendix 2 presents a financial statement comparison for a company that accounts for its investment in a subsidiary in accordance with one of the following methods:

- Equity method
- Consolidation method
- Cost method

This example is based on the same fictitious case, ABC Ltd., and uses the same assumptions as those described in Appendix 1, i.e. a company that has acquired all of the shares of a subsidiary for \$1,375,076 on January 1, 2010;

On January 1, 2011, the subsidiary issues \$385,000 in shares to non-controlling shareholders, representing a 20% interest. The shares were issued at a price corresponding to the carrying value at that date. Again for sake of simplification of the example, we made the assumption that the carrying value was a fair estimate of the fair value of the assets acquired and liabilities assumed.

The subsidiary declares and pays dividends of \$50,000 on December 31, 2011.

The example includes:

- The non-consolidated balance sheets of the parent and the subsidiary as at December 31, 2011;
- The non-consolidated income statements of the parent and the subsidiary for the year ended December 31, 2011;
- Comparative tables of the three accounting methods applied to the parent company's balance sheet, income statement and statement of changes in shareholders' equity.

APPENDIX 2 - 1

**ABC LTD. (parent company)**  
**NON-CONSOLIDATED BALANCE SHEET**  
**As at December 31, 2011**

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 177,844
Accounts receivable	1,618,454
Inventories	2,770,188
Prepaid expenses	153,041
Forward exchange contract	103,794
	<hr/> 4,823,321
INVESTMENT IN A SUBSIDIARY, equity method	1,593,468
PROPERTY, PLANT AND EQUIPMENT	8,567,409
INTANGIBLE ASSETS	1,010,126
	<hr/> \$ 15,994,324
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 2,020,055
Interest rate swap	27,245
Future income taxes	15,345
Current portion of long-term debt	851,051
	<hr/> 2,913,696
LONG-TERM DEBT	875,248
FUTURE INCOME TAXES	1,123,747
	<hr/> 4,912,691
<b>SHAREHOLDERS' EQUITY</b>	
<b>SHARE CAPITAL</b>	
Class D shares (redeemable at the option of the holder for \$1,550,000)	1,550,000
Class G shares (redeemable at the option of the holder for \$1,350,000)	400,000
Other shares	700
	<hr/> 1,950,700
RETAINED EARNINGS	9,130,933
	<hr/> 11,081,633
	<hr/> \$ 15,994,324

APPENDIX 2 - 2

**ABC LTD. (parent company)**  
**NON-CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

SALES	\$ 17,233,704
COST OF GOODS SOLD	11,105,575
<b>GROSS MARGIN</b>	<b>6,128,129</b>
<b>EXPENSES</b>	
Selling expenses	2,534,294
Administrative expenses	1,568,913
Financial expenses	113,329
	<b>4,216,536</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,911,593</b>
<b>INCOME TAXES</b>	
Payable	560,778
Future	105,575
	<b>666,353</b>
<b>INCOME BEFORE EQUITY INTEREST</b>	<b>1,245,240</b>
Share in net income of subsidiary	86,126
<b>NET INCOME</b>	<b>1,331,366</b>
<b>RETAINED EARNINGS, beginning of year</b>	<b>7,799,567</b>
<b>RETAINED EARNINGS, end of year</b>	<b>\$ 9,130,933</b>

APPENDIX 2 - 3

**XYZ LTD. (subsidiary)**  
**BALANCE SHEET**  
**As at December 31, 2011**

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 435,782
Accounts receivable	271,856
Inventories	1,626,672
Prepaid expenses	36,793
	<hr/> 2,371,103
PROPERTY, PLANT AND EQUIPMENT	2,218,863
INTANGIBLE ASSETS	589
	<hr/> \$ 4,590,555
<hr/>	
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 289,454
Current portion of long-term debt	178,000
	<hr/> 467,454
LONG-TERM DEBT	2,123,101
FUTURE INCOME TAXES	10,000
	<hr/> 2,600,555
<hr/>	
<b>SHAREHOLDERS' EQUITY</b>	
SHARE CAPITAL	800,000
RETAINED EARNINGS	1,190,000
	<hr/> 1,990,000
	<hr/> \$ 4,590,555
	<hr/>

APPENDIX 2 - 4

**XYZ LTD. (subsidiary)**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

SALES	\$ 2,372,791
COST OF GOODS SOLD	1,711,909
<b>GROSS MARGIN</b>	<b>660,882</b>
<b>EXPENSES</b>	
Selling expenses	151,463
Administrative expenses	194,049
Financial expenses	167,712
	<b>513,224</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>147,658</b>
<b>INCOME TAXES</b>	
Payable	35,000
Future	5,000
	<b>40,000</b>
<b>NET INCOME</b>	<b>107,658</b>
<b>RETAINED EARNINGS, beginning of year</b>	<b>1,132,342</b>
<b>Dividends</b>	<b>50,000</b>
<b>RETAINED EARNINGS, end of year</b>	<b>\$ 1,190,000</b>

APPENDIX 2 - 5

**COMPARATIVE TABLE: EQUITY METHOD, CONSOLIDATION AND INVESTMENT USING THE COST BASIS****ABC LTD.  
BALANCE SHEET  
AS AT DECEMBER 31, 2011**

	Equity method	Consolidated balance sheet	Investment using the cost basis
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 177,844	\$ 613,626	\$ 177,844
Accounts receivable	1,618,454	1,890,310	1,618,454
Inventories	2,770,188	4,396,860	2,770,188
Prepaid expenses	153,041	189,834	153,041
Forward exchange contract	103,794	103,794	103,794
	4,823,321	7,194,424	4,823,321
INVESTMENT IN A SUBSIDIARY	1,593,468	-	1,375,076
PROPERTY, PLANT AND EQUIPMENT	8,567,409	10,786,272	8,567,409
INTANGIBLE ASSETS	1,010,126	1,010,715	1,010,126
	\$ 15,994,324	\$ 18,991,411	\$ 15,775,932
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 2,020,055	\$ 2,309,509	\$ 2,020,055
Interest rate swap	27,245	27,245	27,245
Future income taxes	15,345	15,345	15,345
Current portion of long-term debt	851,051	1,029,051	851,051
	2,913,696	3,381,150	2,913,696
LONG-TERM DEBT	875,248	2,998,349	875,248
FUTURE INCOME TAXES	1,123,747	1,133,747	1,123,747
	4,912,691	7,513,246	4,912,691
<b>SHAREHOLDERS' EQUITY</b>			
<b>SHARE CAPITAL</b>			
Class D shares (redeemable at the option of the holder for \$1,550,000)	1,550,000	1,550,000	1,550,000
Class G shares (redeemable at the option of the holder for \$1,350,000)	400,000	400,000	400,000
Other shares	700	700	700
	1,950,700	1,950,700	1,950,700
NON-CONTROLLING INTERESTS		396,532	
RETAINED EARNINGS	9,130,933	9,130,933	8,912,541
	11,081,633	11,478,165	10,863,241
	\$ 15,994,324	\$ 18,991,411	\$ 15,775,932

APPENDIX 2 - 6

**ABC LTD.  
INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Equity method	Consolidated income statement	Investment using the cost basis
SALES	\$ 17,233,704	\$ 19,606,495	\$ 17,233,704
COST OF GOODS SOLD	11,105,575	12,817,484	11,105,575
<b>GROSS MARGIN</b>	<b>6,128,129</b>	<b>6,789,011</b>	<b>6,128,129</b>
<b>EXPENSES</b>			
Selling expenses	2,534,294	2,685,757	2,534,294
Administrative expenses	1,568,913	1,762,962	1,568,913
Financial expenses	113,329	281,041	113,329
	4,216,536	4,729,760	4,216,536
<b>DIVIDEND INCOME</b>			<b>40,000</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,911,593</b>	<b>2,059,251</b>	<b>1,951,593</b>
<b>INCOME TAXES</b>			
Payable	560,778	595,778	560,778
Future	105,575	110,575	105,575
	666,353	706,353	666,353
<b>INCOME BEFORE EQUITY INTEREST</b>	<b>1,245,240</b>	<b>1,352,898</b>	<b>1,285,240</b>
Share in net income of subsidiary	86,126	-	-
<b>NET INCOME</b>	<b>\$ 1,331,366</b>	<b>\$ 1,352,898</b>	<b>\$ 1,285,240</b>
<b>Made up of:</b>			
<b>Non-controlling shareholders</b>		\$ 21,532	
<b>Controlling shareholders</b>		1,331,366	
		\$ 1,352,898	

APPENDIX 2 - 7

**ABC LTD.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Share capital	Non-controlling interests	Retained earnings	Shareholders' equity
Balance, beginning of year	\$ 1,950,700	\$ 0	\$ 7,799,567	\$ 9,750,267
Shares issued by the subsidiary		385,000		385,000
Net income		21,532	1,331,366	1,352,898
Dividends paid to non-controlling shareholders		10,000		10,000
<b>Balance, end of year</b>	<b>\$ 1,950,700</b>	<b>\$ 396,532</b>	<b>\$ 9,130,933</b>	<b>\$ 11,478,165</b>

## APPENDIX 3

### EXAMPLE OF FINANCIAL INSTRUMENT RECOGNITION AT AMORTIZED COST WHERE THE INSTRUMENT INCLUDES OFF-MARKET TERMS

Appendix 3 presents the initial recognition of a \$100,000 loan granted to a key employee, bearing interest at the rate of 5% when the market rate for a similar instrument is 7%. The example also shows the subsequent recognition of interest earned on this financial instrument.

In addition, the Appendix presents the difference between the initial fair value of the loan and its nominal value, using the effective interest method and the straight-line method.



## APPENDIX 3 - 1

**INTEREST FREE LOAN OR AT A RATE BELOW MARKET**

On January 1, 2010, the company grants a loan with the following features to a key employee:

Amount of the loan	\$ 100,000
Maturity date	December 31, 2014
Interest rate	5%
Market rate	7%
Interest payment dates	June 30 and December 31
Fair value as at January 1, 2010 (corresponds to the carrying amount)	\$ 91,684

**1. Calculation of amortization as at December 31, 2010 (using the effective interest method)**  
(Benefit related to the off-market interest rate)

Carrying amount of the loan as at January 1, 2010	\$ 91,684
Market rate at acquisition	7%
Year to date	6/12 months
Interest income (market rate)	(91 684 * 7% * 6/12) \$ 3,209
Interest actually earned	(100 000 * 5% * 6/12) \$ 2,500
<b>AMORTIZATION FOR THE PERIOD</b>	<b>\$ 709</b>

**2. Journal entry on January 1, 2010**

Loan to employee	\$ 91,684	
Compensation	\$ 8,316	
@ Cash		\$ 100,000

**3. Journal entry on June 30, 2010 (interest)**

Cash	\$ 2,500	
@ Interest income		\$ 2,500
Loan to employee	\$ 709	
@ Interest income		\$ 709

**4. Journal entry on December 31, 2014 (maturity date)**

Cash	\$ 2,500	
@ Interest income		\$ 2,500
Loan to employee	\$ 965	
@ Interest income		\$ 965
Cash	\$ 100,000	
@ Loan to employee		\$ 100,000

## APPENDIX 3 - 2

**AMORTIZATION SCHEDULE****Effective interest rate method**

	A	B	C	D	E	F
Date	Amortized cost	Interest income	Cash flows	Amortization	Unamortized discount	Carrying amount of loan
		(A * 7% * 6/12)	(5% * 6/12)	(B - C)		
01-01-2010					8,316	91,684
30-06-2010	91,684	3,209	2,500	709	7,607	92,393
31-12-2010	92,393	3,234	2,500	734	6,873	93,127
30-06-2011	93,127	3,259	2,500	759	6,114	93,886
31-12-2011	93,886	3,286	2,500	786	5,328	94,672
30-06-2012	94,672	3,314	2,500	814	4,514	95,486
31-12-2012	95,486	3,342	2,500	842	3,672	96,328
30-06-2013	96,328	3,371	2,500	871	2,801	97,199
31-06-2013	97,199	3,402	2,500	902	1,899	98,101
30-06-2014	98,101	3,434	2,500	934	965	99,035
31-12-2014	99,035	3,465	2,500	965	-	100,000

**Straight-line method (note)**

	A	B	C	D	E	F
Date	Amortized cost	Interest income	Cash flows	Amortization	Unamortized discount	Carrying amount of loan
		(C + D)	(5% * 6/12)	(8316 / 10 per.)		
01-01-2010					8,316	91,684
30-06-2010	91,684	3,332	2,500	832	7,484	92,516
31-12-2010	92,516	3,332	2,500	832	6,653	93,347
30-06-2011	93,347	3,332	2,500	832	5,821	94,179
31-12-2011	94,179	3,332	2,500	832	4,990	95,010
30-06-2012	95,010	3,332	2,500	832	4,158	95,842
31-12-2012	95,842	3,332	2,500	832	3,326	96,674
30-06-2013	96,674	3,332	2,500	832	2,495	97,505
31-06-2013	97,505	3,332	2,500	832	1,663	98,337
30-06-2014	98,337	3,332	2,500	832	832	99,168
31-12-2014	99,168	3,332	2,500	832	-	100,000

**Note**

Section 3856 does not require amortization to be calculated using the effective interest rate method. The company could choose to amortize the discount on a straight-line basis.

## APPENDIX 4

### EXAMPLES OF WORKSHEETS TO DETERMINE THE AMOUNT AFFECTING OPENING RETAINED EARNINGS UPON TRANSITION

Appendix 4 provides examples of worksheets for documenting the calculations and adjustments to the financial statements in the first year of adoption of ASPEs. The proposed examples are intended to facilitate the determination of the opening balance sheet and the reconciliation of net income based on the choices available in FIRST-TIME ADOPTION, Section 1500.

## APPENDIX 4

**RECONCILIATION OF RETAINED EARNINGS AS AT JANUARY 1, 2010**

Retained earnings as at January 1, 2010 based on previous financial statements		\$
<b>Business combinations (1500.10 and .11)</b>		
<b>1500.10 – Retrospective application</b>		
Recognize and reclassify transactions that meet the definition of business combinations	Appendix 4.1	
<i>Remeasure and account for business combinations</i>		
Recognize assets acquired and liabilities assumed that qualify for recognition	Appendix 4.2	
Exclude assets acquired and liabilities assumed that no longer qualify for recognition.	Appendix 4.2	
<b>1500.11 – Prospective application</b>		
Recognize assets acquired and liabilities assumed that qualify for recognition	Appendix 4.3	
Exclude assets acquired and liabilities assumed that no longer qualify for recognition.	Appendix 4.3	
<b>Fair value (1500.12 and .13)</b>		
Change due to the revaluation of property, plant and equipment	Appendix 4.4	
<b>Employee future benefits (1500.14 to .16)</b>		
Situation 1 choice (a)	Appendix 4.5	
Situation 1 choice (b)	Appendix 4.5	
Situation 2	Appendix 4.5	
<b>Cumulative translation differences (1500.17 and .18)</b>		
Recognize cumulative translation differences	Appendix 4.6	
<b>Financial instruments (1500.19 to .21)</b>		
Measure and recognize financial instruments at fair value	Appendix 4.7	
Measure at fair value all financial assets and financial liabilities designated at the date of transition	Appendix 4.8	
<b>Stock-based compensation (1500.22 and .23)</b>		
Change in stock-based compensation	Appendix 4.9	
<b>Asset retirement obligations (1500.24)</b>		
Net change in retained earnings	Appendix 4.10	
<b>Change in future income taxes (when the method is chosen)</b>	Appendix 4.11	
Total changes		\$
Retained earnings as at January 1, 2010 based on ASPEs		\$

**BUSINESS COMBINATIONS**  
**1500.10 – RETROSPECTIVE APPLICATION**

Recognize and reclassify transactions that meet the definition of business combinations

	Based on previous financial statements	Changes in retained earnings	ASPEs
Transactions before the date of transition that must be considered as business combinations			
Total			

Appendix 4

APPENDIX 4.2

**BUSINESS COMBINATIONS**  
**1500.10 – RETROSPECTIVE APPLICATION**

Account for changes due to the retroactive application of business combinations

**Recognize assets acquired and liabilities assumed that qualify for recognition**

<b>Business combinations</b>	<b>Assets to be recognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
Total				

Appendix 4

<b>Business combinations</b>	<b>Liabilities to be recognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
Total				

Appendix 4

**Exclude assets acquired and liabilities assumed that no longer qualify for recognition**

<b>Business combinations</b>	<b>Assets to be derecognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
Total				

Appendix 4

<b>Business combinations</b>	<b>Liabilities to be derecognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
Total				

Appendix 4

**BUSINESS COMBINATIONS  
1500.11 – RETROSPECTIVE APPLICATION**

**Recognize assets acquired and liabilities assumed that qualify for recognition**

<b>Business combinations</b>	<b>Assets to be recognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
<b>Total</b>				

**Appendix 4**

<b>Business combinations</b>	<b>Liabilities to be recognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
<b>Total</b>				

**Appendix 4**

**Exclude assets acquired and liabilities assumed that no longer qualify for recognition**

<b>Business combinations</b>	<b>Assets to be derecognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
<b>Total</b>				

**Appendix 4**

<b>Business combinations</b>	<b>Liabilities to be derecognized</b>	Based on previous financial statements	Changes to retained earnings	ASPEs
<b>Total</b>				

**Appendix 4**

APPENDIX 4.4

**CHANGE DUE TO THE REVALUATION OF PROPERTY PLANT AND EQUIPMENT (1500.12 and .13)**

	Net carrying amount on the balance sheet before the transition	Changes in retained earnings	Deemed cost on the opening balance sheet under ASPEs
Land			
Buildings			
Equipment			
Total			

Appendix 4

## APPENDIX 4.5

**EMPLOYEE FUTURE BENEFITS (1500.14 to .16)****Choice of recognizing all accumulated actuarial gains/losses and unamortized past service costs as at January 1, 2010 in opening retained earnings**

<b>Situation No. 1</b>	The entity has never accounted for a pension plan and elects to recognize accumulated actuarial gains/losses
------------------------	--

(a) The entity elects the immediate recognition approach.

- Impact as at January 1, 2010:**
- Calculate and account for the pension plan as at January 1, 2010
  - Recognize the funding status in opening retained earnings

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
	\$	\$	\$
Fair value of plan assets			
Accrued benefit obligations			
Funding status			

**Appendix 4**

(b) The entity elects the deferral and amortization approach.

- Impact as at January 1, 2010:**
- Calculate and account for the pension plan as at January 1, 2010
  - Recognize the funding status, accumulated gains/losses and past

	previous	retained earnings	sheet under
	\$	\$	\$
Funding status			
Accumulated actuarial gains/losses			
Past service costs			
Net			

**Appendix 4**

APPENDIX 4.5

**EMPLOYEE FUTURE BENEFITS (1500.14 to .16) [continued]**

**Choice of recognizing all accumulated actuarial gains/ losses and unamortized past service costs as at January 1, 2010 in opening retained earnings**

<b>Situation No. 2</b>	The entity accounted for its pension plan and elected to recognize accumulated actuarial gains/losses and unamortized past service costs
------------------------	--

**Impact as at January 1, 2010**

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
	\$	\$	\$
Fair value of plan assets		–	
Accrued benefit obligations		–	
<b>Funding status – (deficit)</b>		–	
Unamortized net actuarial gains/losses			
Unamortized past service costs			
Unamortized transitional obligation			
Sub Total			
		<b>Appendix 4</b>	
<b>ACCRUED BENEFIT ASSET (LIABILITY)</b>			

APPENDIX 4.6

**CUMULATIVE TRANSLATION DIFFERENCES (1500.17 and .18)**

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
Cumulative translation differences			

**Appendix 4**

APPENDIX 4.7

**FINANCIAL INSTRUMENTS (1500.19)**

**Entity that uses Part V of the CICA Handbook XFI**

Initially measure and recognize financial instruments at fair value

**FINANCIAL INSTRUMENTS**

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
TOTAL CHANGE			

Appendix 4

**FINANCIAL INSTRUMENTS (1500.21)**

**Entity that uses Part V of the CICA Handbook with financial instruments**

Measure at fair value all financial assets and financial liabilities **designated** at the date of transition that were previously accounted for at cost.

**FINANCIAL INSTRUMENTS**

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
<b>TOTAL CHANGE</b>			

**Appendix 4**

APPENDIX 4.9

**STOCK-BASED PAYMENTS (1500.22 and .23)**

If the entity **does not use the exemption** allowing it not to restate previous stock-based payments.

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
Stock-based payments			

**Appendix 4**

## APPENDIX 4.10

**ASSET RETIREMENT OBLIGATIONS (1500.24)**

	Based on previous financial statements	Changes in retained earnings	Opening balance sheet under ASPEs
Asset retirement cost to be added to property, plant and equipment			
Asset retirement obligations			
Net			

**Appendix 4**

APPENDIX 4.11

**NET CHANGE IN FUTURE INCOME TAXES**

	Future income taxes based on previous financial statements	Changes in retained earnings	Future income taxes in the opening balance sheet under ASPEs
Business combinations			
Revaluation of property, plant and equipment			
Employee future benefits			
Financial instruments			
Asset retirement obligations			
Net change in future income taxes			

Appendix 4

APPENDIX 4.12

**RECONCILIATION OF NET INCOME IN THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010**

	Income statement for the year ended December 31, 2010 based on previous financial statements	Changes in retained earnings	Income statement for the year ended December 31, 2010 under ASPEs
SALES			
COST OF GOODS SOLD			
GROSS MARGIN			
EXPENSES			
Selling expenses			
Administrative expenses			
Financial expenses			
INCOME BEFORE INCOME TAXES			
INCOME TAXES			
Payable			
Future			
<b>NET INCOME</b>			

Appendix 4

**CHANGE IN RESULTS FOLLOWING THE FAIR VALUE MEASUREMENT OF CAPITAL ASSETS AND OTHER ITEMS**

A few examples of adjustments that could affect net income as at December 31, 2010<sup>1</sup>

	Change in carrying amount due to fair value measurement	Amortization for the year ended December 31, 2010	Additional amortization to include in net income
<b>FAIR VALUE (1500.12 and .13)</b> Adjustment to amortization			
<b>ASSET RETIREMENT OBLIGATIONS (1500.24)</b> Amortization of the asset Accretion expense			
<b>FINANCIAL INSTRUMENTS (1500.19 to .21)</b> Amortization of the difference between the cost and initial fair value			
<b>EMPLOYEE FUTURE BENEFITS (1500.14 to .26)</b> Choice of the immediate recognition approach			
<b>FUTURE INCOME TAXES RESULTING FROM THESE CHANGES</b>			

Appendix 4

<sup>1</sup> Please note that this list is not exhaustive.