



CHARTERED ACCOUNTANTS LLP

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GAAP FOR PRIVATE ENTERPRISES VS. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In recent months, the Canadian Accounting Standards Board has adopted two new financial reporting frameworks which will replace the existing Canadian generally accepted accounting principles (“GAAP”): International Financial Reporting Standards (“IFRS”) and Generally Accepted Accounting Principles for Private Enterprises (“GAAP PE”). While all publically accountable entities (e.g. publically traded companies) must adopt IFRS, an option exists for non-publically accountable entities (e.g. private and not-for-profit companies) to choose either GAAP PE or IFRS reporting framework.

IFRS

GAAP PE

When?	<ul style="list-style-type: none">• All fiscal periods starting after January 1, 2011 and applied as if the company has always reported under IFRS (e.g. retroactively). Early adoption is available.	<ul style="list-style-type: none">• All fiscal periods starting after January 1, 2011 and applied as if the company has always reported under GAAP PE (e.g. retroactively). Early adoption is available.
Why adopt?	<ul style="list-style-type: none">• Increased access to foreign financing.• Entity is considering going public in the foreseeable future.• Comparability of financial statements across countries.	<ul style="list-style-type: none">• Most Canadian non-publically accountable entities will choose to adopt GAAP PE.• Less detailed accounting and disclosures required resulting in a less costly accounting process as compared to IFRS.
Significant changes	<ul style="list-style-type: none">• Capital assets valued at amortized cost or fair market value and may be <u>re-valued on an annual basis</u>.• Differential reporting options will not be available under IFRS.• Financial statement presentation will change significantly.• Financial statement note disclosures will require an increased level of detail• Impairment testing of assets must be carried out in each reporting period.• Financial instruments (e.g. cash, investments, receivables and payables) will be required to be measured at fair value and will result in a new statement of comprehensive income.	<ul style="list-style-type: none">• Capital assets can be re-valued at their fair market but may <u>only be re-valued once</u>, on the date of transition to GAAP PE.• Differential reporting options which reduce the complexity and disclosure requirements of the financial statements will continue to be available under GAAP PE.• Financial statement note disclosures will require some changes but the level of detail will remain relatively the same.• Future employee benefits (e.g. pensions) accounting will be simplified.• Financial Instruments (e.g. cash, investments, receivables and payables) that trade in an active market will be required to be measured at fair market value with the difference being recorded in income.

For clients of KNV, the change to GAAP PE or IFRS will only affect entities that require an Audit or Review engagement of their financial statements. However, many of our clients that prepare statements under a Notice to Reader engagement may also benefit from these changes.

We have found that one area that will be of interest to clients of KNV is the ability to increase the value of your capital assets (e.g. land, buildings, equipment, etc.) to fair market value with an offsetting increase in equity (available once under GAAP PE or annually under IFRS). The ability to restate the value of capital assets may have a positive impact on your entity's financial statement covenants and/or its ability to utilize these assets as security to obtain financing. However, it is important to note that there is a cost to revaluing your capital assets as valuation to support the increase in value is required (e.g. evidence of the sale of similar assets or professional appraisal). Further, increasing the value of depreciable capital assets will result in an increased amortization expense and reduced earnings in future periods which may impact your financial covenants.

We would be pleased to discuss with you the options that would best meet your organization's needs whereby ensuring that the most appropriate financial reporting framework is chosen. Together, we can work to maximize your goals and objectives as well as discuss the steps to be taken to ensure that a smooth transition to IFRS or GAAP PE occurs as seamlessly as possible.

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