

IFRS: Get to the Point

**Practical “How to” tips for
small and mid-sized companies**

Session 2

Practical and Effective
IFRS Accounting Policy Analysis

IFRS: Get to the Point



Focus on the core issues

Project management, communication & training	Identify key accounting issues <i>IFRS vs. Canadian GAAP</i>	Identify & resolve 'business impacts'
	Analyze accounting standards <i>interpret requirements & alternatives including IFRS 1</i>	
	Determine accounting policies <i>including IFRS 1</i>	
	Implement <i>accounting policy changes & IFRS 1 choices draft financial statements</i>	

IFRS: Get to the Point

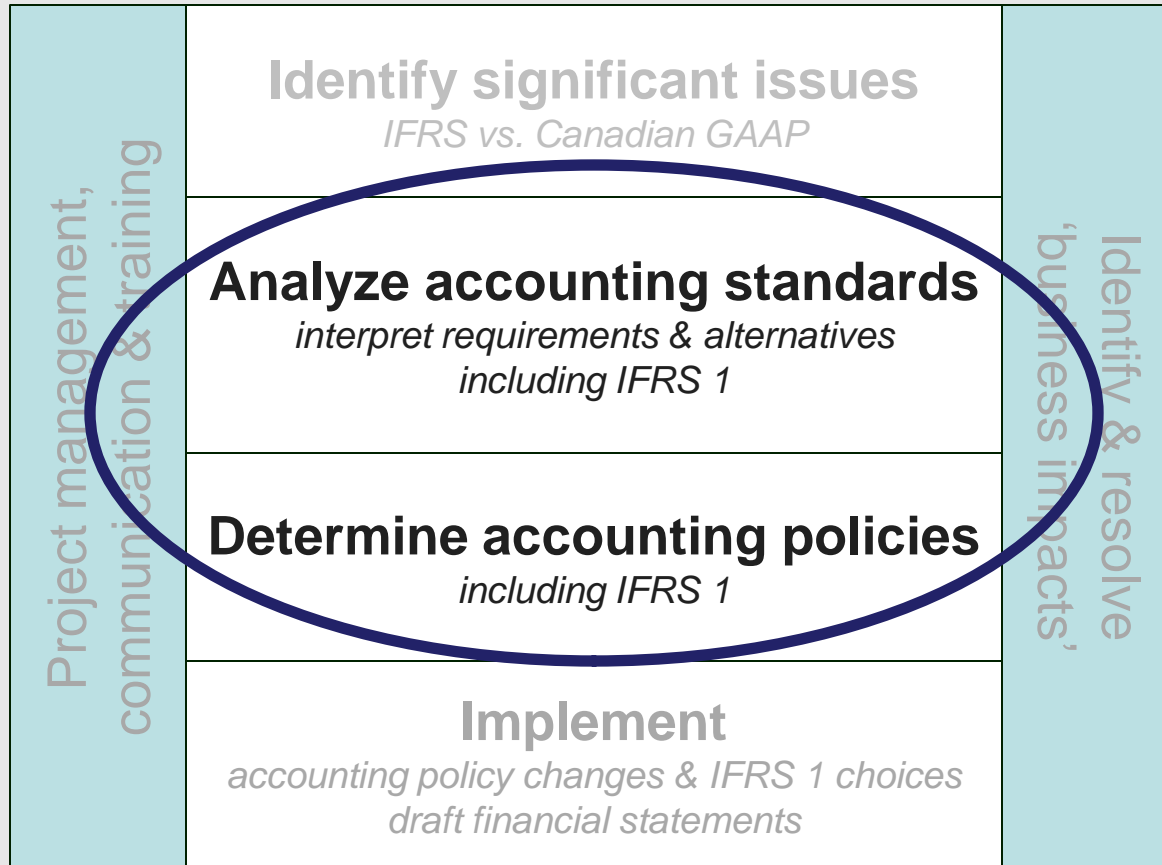


Session 1

Project management, communication & training	Identify key accounting issues <i>IFRS vs. Canadian GAAP</i>	Identify & resolve 'business impacts'
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IFRS: Get to the Point

This Session



Consider the desired output of the analysis:

Accounting Policies

- What accounting policies will change?
- How will our financial statements change?
- Who do we need to train / communicate with?

Accounting Processes

- Are our systems and processes able to produce the required information?
- What accounting process will need to change?
- Who do we need to train / communicate with?

Tool Kit:

- 1) Your financial statements (latest interim & annual Canadian GAAP)
- 2) IFRS Standards & Guidance
- 3) KPMG: IFRS Compared to Canadian GAAP - an overview
- 4) AcSB: Detailed Comparison of IFRS and Canadian GAAP
- 5) BDO: IFRS Canadian GAAP Differences Series
- 6) Industry Specific Publications

Done effectively, this will guide the majority of your implementation efforts

- Develop your standard template
- Analyze by issue, not by standard
 - *ensures completeness*
 - *avoids duplicate/circular analysis*
 - *yes, someone has to read the standards!*
- Identify ‘business impacts’ and next steps for resolution
- Approvals and auditor review

Suggestions for Analysis Template

- a) Relevant IFRS Standards
- b) IFRS 1 exemptions / exceptions
- c) Accounting policy alternatives
- d) Expected changes to standards

Identify

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Identify

- e) IFRS Differences & impact on the organization
- f) Policy analysis, recommendation & rationale
- g) Quantification
- h) Presentation & note disclosure requirements

**Analyze
& Determine**

Suggestions for Analysis Template

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**Analyze
& Determine**

- i) Implementation Process

Prepare

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**Analyze
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Prepare

- j) Approvals
- k) Auditor Review

**Review &
Approval**

ABC Co.

IFRS Transition

Accounting Policy Analysis

Equipment (selected accounting issue)

- *Example* -

Note: the examples prepared for this session are for illustrative purposes only and are not intended to be definitive or exhaustive.

IFRS Accounting Policy Analysis



Focus

(session 1 example)

Reference		Complexity	Potential FS Impact	Change Expected
First-time Adoption				
IFRS 1	First-time adoption	H	1st year	
Equipment				
IFRS 5	Assets held for sale & disc ops	L	L	yes
IAS 16	Property, Plant and Equipment	H	M	
IAS 17	Leases	M	L	yes
IAS 23	Borrowing Costs	M	M	
Impairment of Assets				
IAS 36	Impairment of Assets	H	M	
Provisions				
IAS 37	Provisions, Contingent Liab & Assets	L	L	yes
Foreign Exchange				
IAS 21	The Effects of FX Rates	M	L	
Stock Options				
IFRS 2	Share-based payments	M	L	
Financial Statement Presentation				
IAS 1	Presentation of Financial Statements	M	M	yes
IAS 8	Acctg Policies, Chng in Estimates...	L	L	
Other - No significant Difference Expected				
IAS 18	Revenue	L	L	yes
<p>This example is for illustrative purposes only, and is not exhaustive. In addition, the assessment of issues as having "H,M,L" differences to Cdn GAAP is subjective and requires management judgement considering an entity's specific circumstances.</p>				

Identify – more detail:

- a) Relevant IFRS Standards
- b) IFRS 1 exemptions / exceptions
- c) Accounting policy alternatives
- d) Expected changes to standards

Identify

Example (ABC Co. Equipment)

a) Relevant IFRS standards:

Ref	IFRS Standard
IFRS 5	Non-current assets held for sale / disc ops
IAS 16	Property, plant & equipment
IAS 17	Leases
IAS 23	Borrowing Costs
IAS 36	Impairment of Assets *

* see separate analysis

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



b) IFRS 1 optional exemptions / mandatory exceptions:

	Description
Optional Exemption	IAS 16 PP&E Deemed cost on opening IFRS balance sheet – can use: <ul style="list-style-type: none">•fair value (asset by asset)•previous GAAP revaluation
Optional Exemption	IAS 23 Borrowing Costs <ul style="list-style-type: none">•can choose transition date or any prior date to begin interest capitalization related to qualifying assets

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



c) Accounting policy alternatives:

	Description
Alternative	<p>IAS 16 PP&E</p> <p>Choice (class by class) between:</p> <ul style="list-style-type: none">•cost model (record at cost & depreciate)•revaluation model (regular adjustments to fair value, still depreciate)

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



d) Expected changes to standards:

Standard	Status
IFRS 5 Non-current assets held for sale	<ul style="list-style-type: none">• Exposure draft available• Final expected Q4 2009• Effective 2011 <i>{Comment on what changes are relevant}</i>
IAS 17 Leases	<ul style="list-style-type: none">• Discussion paper available• Potential elimination of the concept of operating leases• Expected effective 2012?

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IFRS Accounting Policy Analysis



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Identify

Analyze & Determine Accounting Policies:

- e) IFRS Differences & impact on the organization
- f) Policy analysis, recommendation & rationale
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**Analyze
& Determine**

Analyze & Determine:

e) IFRS Differences & impact on the organization

List/table assessing each difference:





- ① IFRS requirement (relevant only)
- ② Your current accounting policy

Analyze & Determine:

e) IFRS Differences & impact on the organization

List/table assessing each difference:

③ Impact on your organization

- Potential accounting policy/process change
- Potential for unavailable data
- Decisions to be made
- assets/liabilities   ?
- revenue/expenses   ?
- management reporting, covenants, compensation agreements, etc.

Example (ABC Co. Equipment)



e) IFRS Differences & impact on ABC:

Issue	IFRS	ABC policy	Impact on ABC
IAS 16 Componenti zation	Significant components must be depreciated separately	There may be assets that do not comply	Analysis required on significant items within certain PP&E classes
IAS 23 Interest capitalization	Interest must be capitalized on 'qualifying' assets (assets that take significant time to prepare for use)	Interest is not capitalized	Details of accounting policy to be drafted (thresholds, calculations)

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



e) IFRS Differences & impact on ABC:

(possible additions table on previous slide)

Issue	Impact on ABC
IAS 23 Interest capitalization	<ul style="list-style-type: none">• No opening balance sheet impact (assuming retro. exemption taken)• Increase in PP&E values going forward• Decrease in interest expense• Increase in amortization expense• Net income changes affect compensation agreements• Bank covenants (interest coverage)• KPIs – return on assets• Project budgeting

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



f) Policy analysis, recommendation & rationale

First-time adoption

- ABC will not elect to apply the optional exemption with respect to the opening cost of equipment [deemed cost] (therefore apply IAS 16 retrospectively)
- ABC will elect to apply IAS 23 *Borrowing Costs* prospectively from the transition date

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



f) Policy analysis, recommendation & rationale

At transition date

Choice of cost or revaluation model

- selection of the revaluation model could involve additional expense (valuations), administrative effort and volatility in asset values, equity and net income
- ABC will choose to apply the cost model for equipment

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



f) Policy analysis, recommendation & rationale

At transition date

Borrowing Costs

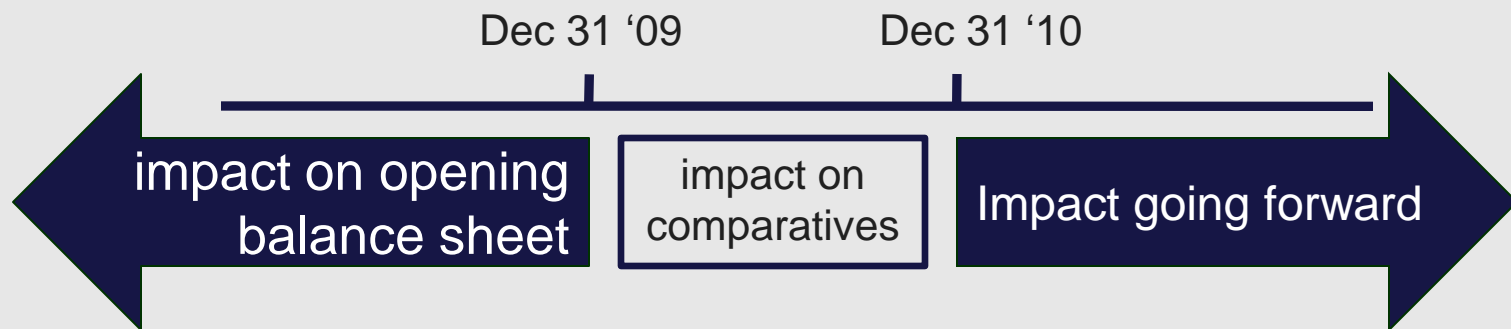
- ABC will capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying assets in accordance with IAS 23
- Qualifying assets will be defined as those that necessarily take XX months to get ready for their intended use or sale.

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Analyze & Determine:

g) Quantification *(no example included)*

- start with an estimate
- identify missing data
- retrospective & prospective *(backwards and forwards)*
- apply IFRS exemptions & alternatives



Analyze & Determine:

h) Presentation & note disclosure requirements

(no example included)

- consider first-time adoption and going forward
- focus on differences to current presentation/disclosure
- ensure availability of data
- sensitivity of new information to be disclosed

Resource:

Grant Thornton – First time adoption of IFRS: Example financial statements

IFRS Accounting Policy Analysis



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**Analyze
& Determine**

Prepare for Implementation:

- i) Implementation Process

Prepare

Prepare for implementation:

i) Implementation Process

- Highlight accounting policy and/or process changes
- Next Steps
 - ① remaining decisions to be made?
 - ② internal control impact
 - ③ business impacts (resulting from financial statements change)
 - ④ dual recording implications
 - ⑤ systems impact
 - ⑥ training requirements

Example (ABC Co. Equipment)



i) Implementation Process:

Accounting Policy Changes	<ul style="list-style-type: none">• Interest capitalization on internally developed assets
Process Changes	<ul style="list-style-type: none">• Equipment reviewed on acquisition for significant components• Interest capitalization calculations applied quarterly
Next Steps	
Decisions to be made	<ul style="list-style-type: none">• Confirm selection of cost model for PP&E
Internal Control Impact	Update documentation for: <ul style="list-style-type: none">• separation of PP&E components• Interest capitalization calculations

Example for illustrative purposes only; not intended to be definitive or exhaustive.

Example (ABC Co. Equipment)



i) Implementation Process (continued):

Next Steps	
Business Impacts	<ul style="list-style-type: none">• Review debt covenants• HR – compensation agreements• KPIs – return on assets• Project budgeting <i>{incl. responsibilities & timelines}</i>
Dual Recording Implications	<ul style="list-style-type: none">• tracking of interest to be capitalized under IFRS – use additional GL acct?
Systems Impact	<ul style="list-style-type: none">• Changes to available classes in fixed asset subledger
Training requirements	<ul style="list-style-type: none">• Acct Pay personnel – reviewing PP&E for components• Corporate accountant – interest capitalization calculations

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Review & Approval:

- j) Approvals
- k) Auditor Review

**Review &
Approval**

Review & Approval

Note – internal controls & disclosure controls:

An IFRS transition involves many activities that have a direct impact on your disclosures and financial reporting, including significant judgement in the selection and application of accounting policies.

Carefully consider your company's requirements related to CEO/CFO certification throughout the transition process – including the appropriate reviews and approvals of the IFRS accounting policy analyses.

Resource:

KPMG – IFRS Conversion: Implications for CEO and CFO certifications

Example (ABC Co. Equipment)



j) Approvals:

	Signature	Date
Prepared by:		
Controller		
CFO		

k) Review:

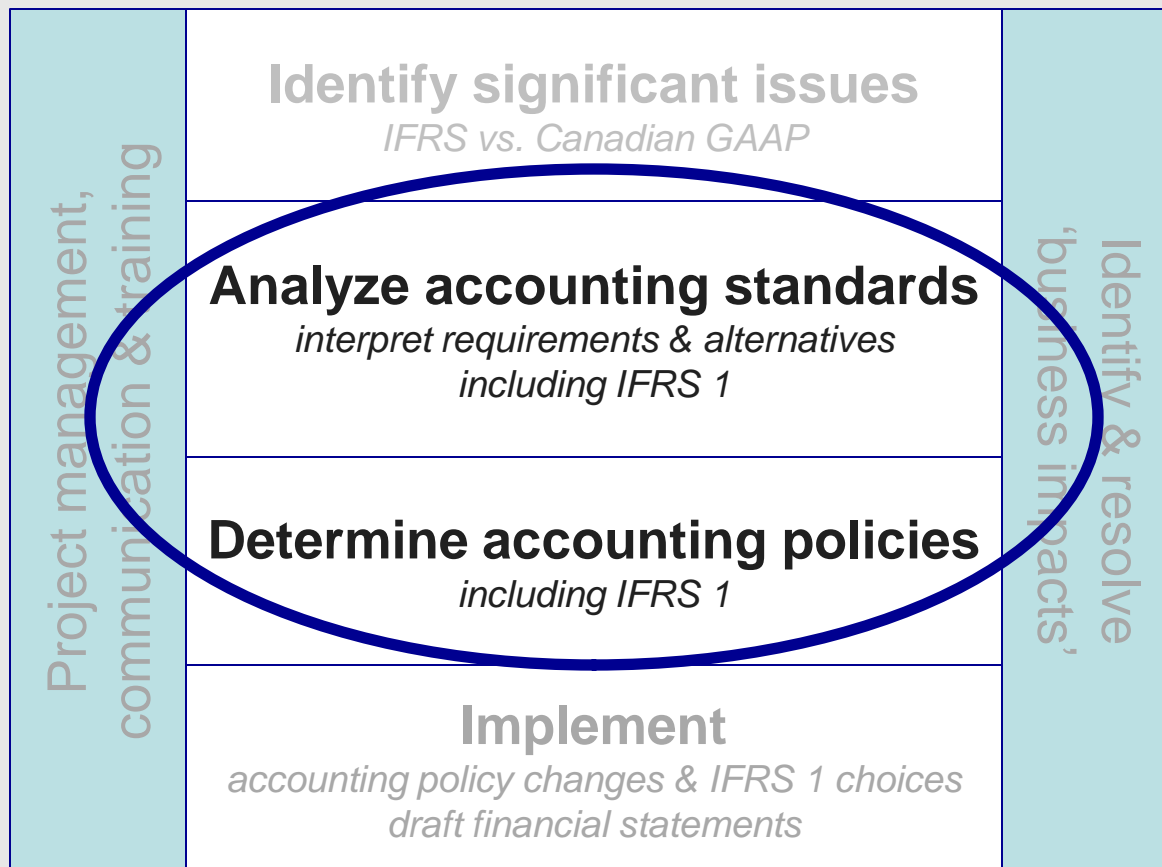
	Comment	Date
Audit Committee		
External Auditor		

Example for illustrative purposes only; not intended to be definitive or exhaustive. Be sure to consider your organization's specific requirements related to CEO and CFO certifications throughout the transition process.

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This Concludes Session 2:

Practical & Effective IFRS Accounting Policy Analysis



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Resources:

The reference material and resources referred to during this presentation are available, along with others at:

www.CICA.ca/IFRS/gettothepoint

Presenter (English)



Gordon Heard, CA

Principal Advisor

The Finance Group

The Finance Group has been helping Canadian companies with their IFRS transitions since 2007, and publishes the IFRS in Canada eNewsletter and website (www.IFRSinCanada.com).

Gordon has presented practical advice on planning and executing IFRS transitions at various seminars and speaking engagements across Canada. Gordon also works with the Canadian Institute of Chartered Accountants (CICA) providing input on IFRS education and communication from the perspective of members in industry.

Gordon has 20 years of financial management and executive experience in organizations of varying sizes, and is a member of the Financial Executive International (Canada)'s Committee on Corporate Reporting.

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Présentatrice (français)



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Associée en recherche en comptabilité

Raymond Chabot Grant Thornton S.E.N.C.R.L.

Raymond Chabot Grant Thornton (RCGT) aide les entités canadiennes dans le cadre de leur transition vers les IFRS depuis 2007 et publie notamment des bulletins de nouvelles, guides et exemples d'états financiers concernant les IFRS (www.rcgt.com). RCGT est un cabinet membre au sein de Grant Thornton International Ltd (GTI) et bénéficie donc de l'expérience d'autres membres quant aux IFRS.

Sophie a animé plusieurs cours relatifs aux IFRS, contribue aux publications précédemment citées et offre quotidiennement des conseils sur l'application des IFRS. Elle fait également partie de groupes de travail liés aux IFRS, dont au sein de l'Institut Canadien des Comptables Agréés et de GTI.

L'expérience de Sophie totalise plus de 20 ans en recherche en comptabilité, enseignement et certification d'entités de différentes tailles et de secteurs d'activités variés.

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