The Quarterly

williams & partners
chartered accountants LLP

# New Accounting and Auditing Standards are Here

## Winter 2011



There are a number of significant changes taking place in accounting and auditing standards in Canada. During this year, there will not only be a change in the accounting standards by the introduction of the Accounting Standards for Private Enterprises ("ASPE"), but there will also be a change in how entities will be audited through the introduction of Canadian Auditing Standards ("CAS").

### Does a PE have to wait until 2011 to adopt the new standards?

ASPE is a new set of accounting standards issued by the governing accounting body in Canada, The Accounting Standards Board ("AcSB"). The AcSB wanted to create a set of standards that were similar to current Generally Accepted Accounting Principles but with a focus on requiring only disclosures that were relevant to private enterprises. ASPE is a creation of years of hard work by the AcSB, accounting professionals, and the users of the financial statements being primarily owner managers and their lenders.

The newly introduced International Financial Reporting Standards ("IFRS") are also an option for private enterprises to adopt if they so wish. Public enterprises or those holding assets in a fiduciary capacity for a broad group of users are required to adopt IFRS. As there is not a mandatory requirement for a private enterprise to adopt one standard over the other, this leaves the choice up to the owner manager as to which set of standards is more appropriate for their purposes or the needs of their users.

Adoption of either ASPE or IFRS is required for fiscal periods beginning on or after January 1, 2011. This means that an enterprise with a calendar year end must adopt ASPE or IFRS for its 2011 fiscal year. An enterprise is not precluded from early adopting these standards as it may be beneficial to do so.

### ASPE or IFRS

The conversion to ASPE is not as extensive or complex as the conversation to IFRS. IFRS is designed with shareholders of listed entities in mind while ASPE is designed with owner managers in mind. During this time of transition it is important for management to keep the lines of communication open between their accountants, bankers, and lenders to ensure that all parties have a thorough understanding of how the new accounting standards will impact the entity.

### Fair value or cost

As previously mentioned in the Summer 2010 edition of The Quarterly, an enterprise that adopts ASPE has a one-time only option on transition to use the fair value of property, plant, and equipment as its deemed cost. This means that if an enterprise had a building with a book value of $100,000 and fair value of $200,000, the entity would be permitted to write up the cost of the building to $200,000. The enterprise is not required to fair value all capital assets, but is free to pick and choose which assets it wishes to fair value. As the comparative figures on the financial statements have to be ASPE compliant, an entity would require fair value information as at the opening balance sheet date of the comparative periods.

### Consolidate or not

Under the current accounting standards, use of the cost or equity method in accounting for subsidiaries requires unanimous shareholder consent to the use of differential reporting. Under ASPE, the new standard allows management to make an accounting policy choice to use consolidation, the equity method or cost method to account for investments in subsidiaries without the requirement to have unanimous shareholder consent. This will simplify the administrative process for a private enterprise wishing not to consolidate their subsidiaries.

### Let's discuss your options

At Williams and Partners, our accounting professionals are here to assist you in whatever accounting standards you wish to adopt. Whether it be ASPE or IFRS, our team will help you through the conversion process to ensure the financial statements meet the needs of the intended users.

### Canadian Auditing Standards

A new set of Canadian Auditing Standards ("CAS") has been approved by the governing auditing body of Canada, the Auditing and Assurance Standards Board ("AASB"). Audits for fiscal periods ending on or after December 14, 2010 will be conducted in accordance with these new auditing standards. These new standards are a Canadian version of the International Standards on Auditing ("ISA") which are used by auditors in a number of different countries. While similar to the current set of Canadian Generally Accepted Auditing Standards ("GAAS") there are some differences in how the audit will be planned, conducted, and the final audit report issued to management. The changeover date is December 14, 2010 which means that a corporation with a calendar year end will have their audit conducted using the new standards this year.

As the new CAS's will apply to all types of audits, independent of whether the company is small, large, private or public, it is important for management to consider the implications of the new auditing standards. During this time of transition, management and those responsible for the financial reporting process may have the following questions:

### *Why are auditing standards changing?*

With the increase in globalization comes the need to not only have consistency in how entities report their financial information but also consistency in how audits are conducted. For the last several years, the AASB has been working with international standard setters to develop a set of auditing standards to be used for audits around the globe. The reason for this change is to provide financial statement users with the confidence that the same set of high quality and consistent standards were used for companies independent of the country in which the entity does business.

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*Why do the new accounting standards have an effective date of January 1, 2011 and the new auditing standards have an effective date of December 14, 2010?*

For financial statement presentation purposes the comparative balances have to be prepared in accordance with the set of standards adopted. To ensure consistency, the comparative balances should also be audited in accordance with the same auditing standards.
Take for example, an entity with a 2010 calendar year end. The 2010 audit will be conducted in accordance with CAS. The entity would either adopt IFRS or ASPE on January 1, 2011. Let us assume that the entity adopts ASPE. For the first set of financials prepared in accordance with ASPE, the comparative figures will have to also be prepared in accordance with ASPE. The 2011 audited statements would be audited in accordance with CAS and the previous year would have also been audited in accordance with CAS. This results in both the 2010 and 2011 fiscal years being audited and prepared in accordance with a consistent set of standards.

| January 1, 2010 | December 31, 2010 | January 1, 2011 | December 31, 2011 |
|---|---|---|---|
| ↓ | ↓ | ↓ | ↓ |
| Opening financial statements under ASPE | First audit in accordance with CAS | ASPE adopted | Second audit in accordance with CAS |

*What are the significant differences in how the audit is conducted?*

## Materiality

GAAS has two materiality levels used to assess the level of misstatement that would impact the decision of a financial statement user. The first materiality level is calculated based upon the financial statements as a whole, while the second materiality level is used to determine the extent of work to be performed. This second level of materiality is usually a percentage of the amount used for the financial statements as a whole.

Under CAS there is one more level of materiality which is used during the audit. An auditor may calculate a level of materiality for classes of transactions, account balances, or related disclosures. This means that the auditor may have a level of materiality for sales and a different level of materiality for expenses.

## Estimates and fair values

GAAS does not contain specific risk assessment procedures to assist auditors in obtaining an understanding of how management makes accounting estimates.

CAS's recognize that estimates and fair value are more susceptible to material misstatements as they involve a considerable amount of professional judgment. CAS provides the auditors with risk assessment procedures relating to accounting estimates and ways to understand how management has arrived at these estimates. Such estimates could include the useful life of capital assets, fair value of pension fund liabilities, or asset retirement obligations. This means that auditors may ask more questions relating to how management has arrived at their estimates and fair values.

## Communications with management

GAAS provides auditors with flexibility as to the timing of communications with management and the type of communication. Communication with management can be written, oral, or a combination of both and the auditor is free to communicate these matters when appropriate.

CAS requires that information be communicated in a timely manner without unnecessary delay. The auditor is also required to retain copies of all required communication in writing and document in detail the nature of any oral communication.

*Will the audit report change?*

There will be three significant differences to the audit report: 1) Structure 2) A clarification paragraph on management's responsibility 3) The date of the audit report.

*Structure*

The new audit report will have three distinct sections: management's responsibility, auditor's responsibility and finally the auditor's opinion.

*A clarification paragraph on management's responsibility*

The new section on management's responsibility for an enterprise that has adopted ASPE reads as follows:

*Management's Responsibility for the Financial Statements*
*Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.*

This new section on management's responsibility brings to the attention of the users of the financial statements that the onus is on management to ensure that internal controls over the financial reporting process are implemented in the organization and that these controls are working effectively.

*The date of the audit report*

Under current auditing standards, the audit report is typically dated when the auditor has requested all information necessary for the audit and is just wrapping up any loose ends. This date is commonly referred to as the date of substantial completion. Under CAS, the audit report must be dated no earlier than the date that all audit evidence has been obtained, including the final approval of the audited statements. This means that management must approve the financial statements before the auditor can date the audit report as being complete.

*Which auditing standards will be used for fiscal years ending before December 14, 2010?*

For fiscal years ending before the transition date of December 14, 2010, the financial statements will either be audited in accordance with the current standards (GAAS), or a combination of both CAS and GAAS. Early adoption of the entire set of CAS standards is not permitted, however auditors are able to use their professional judgment as to whether certain standards in CAS provide more guidance than under GAAS. This could be the case where the auditor feels that guidance under CAS relating to Estimates and Fair Values is more extensive than under GAAS. If the auditor decides to use a specific set of standards under CAS, they must ensure that its application is still consistent with the existing GAAS standards.

# Tax Tip: Power of Attorney

A power of attorney is a legal document that allows a person (or company) to act on another person's behalf to deal with his or her property. There are two types of powers of attorney – a limited power and a general power. A limited power of attorney is used to allow selected transactions or decisions to be made when the person is for example, ill, on vacation or otherwise unavailable to act in person. A general power of attorney allows the attorney to make any decision with respect to an individual's property. Because the attorney's power is so broad, it is important that the attorney be someone that the individual trusts without reservation.

When choosing an attorney, small business owners should give thought to the rules in the Income Tax Act regarding related and associated corporations. A Canadian-controlled private corporation ("CCPC") is eligible for reduced tax rates on the first $500,000 of active business income earned in Canada on an annual basis. In addition, they are eligible for enhanced investment tax credits (which may be refundable) for qualifying scientific research and experimental development expenses. When two or more CCPCs are associated, these corporations must share access to the $500,000 small business limit and the enhanced investment tax credits. In addition, the small business limit and other credits may also be reduced because of the total taxable capital of the associated group of companies.

Under provisions of the Income Tax Act, a person who has a right under contract to acquire or control shares of the capital stock of a corporation steps into the same position with respect to ownership or control of the corporation as they would be if the right were exercised. The Canada Revenue Agency ("CRA") has taken the position that an enduring power of attorney is a right under contract for purposes of the above tax provisions. (There is an exception to the rules when the right is contingent and may only be exercised upon the bankruptcy, death or disability of an individual.)

As a result, the attorney is deemed to own all shares held by the grantor of the power of attorney. If the attorney is deemed to own

all shares held by the grantor, what were previously unassociated corporations may be deemed to be associated. Therefore, the availability of the small-business deduction and other exemptions/credits will be reduced. It is recommended that business owners should consider the CRA's view prior to signing a power of attorney.

# Client's Corner: TrainingFolks International Inc.

What started out as a friendship turned into a business partnership in 1997 after Saqib Hassan and Matthew Davis recognized the need for bridging the gap between Information Technology and Human Resources in the world of technical training solutions. Today, TrainingFolks is a full service international training consultancy that helps companies implement change and build a higher performing workforce by providing customized learning solutions for the Fortune 100 Market.

TrainingFolks is headquartered in Woodbridge, Ontario with sales offices in Charlotte, North Carolina, and London, UK. The senior team consists of two partners, four senior officers, and a staff of 15 employees. Sharing a passion for life-long learning, employee development, and customer satisfaction, the TrainingFolks Team has worked on hundreds of projects over the years including helping clients with:

- Post merger and acquisition integration;
- Implementing new or upgrading technology;
- Filling leadership talent pipeline;
- Expanding operations or opening a new location;
- Rolling out a new HR or cultural change initiative; and
- Complying with new regulations and laws.

TrainingFolks' partnership approach is one of the reasons why over 97% of the clients have worked with them year after year. Other reasons that clients have chosen to work with them are:

Performance Consulting Expertise: TrainingFolks understands that training is only an enabler to behavioral change. For true business results to be achieved, they realize that individuals not only need the skills that training can provide, but also need the proper processes and technologies in place; plus any identified barriers or impediments either removed or mitigated. Only then can an individual's high performance improvement occur and thus true business results can become realized.

Industry Expertise: Understanding the key business drivers of their clients is critical for ensuring that all projects that TrainingFolks is involved with leave a tangible impact into the business. They can also get engaged quicker as they don't need to spend time learning about industry specifics.

Scalability: TrainingFolks' ability to meet a large scale rollout in a short window of time is vital for many of their largest clients. The TrainingFolks Network is an integral part of addressing those short time-framed deadlines their clients are experiencing, in a seamless manner.

TRAININGFOLKS

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TrainingFolks International Inc. • 111 Zenway Blvd, Unit 33 • Woodbridge, Ontario L4H 3H9

# Newsbits

Williams and Partners is pleased to announce the addition of the following team members:

### Ray Loucks, CA

Ray Loucks, CA has joined the firm's tax group as a Tax Senior. Ray has been a CA for four years and has extensive experience working in the tax area servicing owner managed clients.

### Roman Raskin, CA

Roman Raskin, CA has joined the firm's accounting group as a Senior Accountant. Roman is a graduate of York University, Atkinson collage. He completed his Honours Bachelor of Administrative Studies (BAS) specializing in accounting. Roman brings over four years of public accounting experience to the firm.

### Alla Masyuk

Alla has joined the firm's accounting group as a Staff Accountant. Alla will be assisting with bookkeeping and compilation engagements for our firm's client base.

### William Magos

William has joined the firm's accounting group as an Analyst. William worked an eight month co-op work term with us beginning in January 2010 before joining the firm as a full time staff. William will be graduating in December 2010 with a Bachelor of Commerce Specialized in Accounting from Ryerson University. William will be writing his CA exams starting in January 2011.

### Andrew Klunowski

Andrew has joined the firm's accounting group as an Analyst. Andrew is a recent graduate of the University of Toronto and is starting his career in public accounting. Andrew will be writing his CA exams starting in January 2011.

### Lucy Tran

Williams McGuire is pleased to announce the addition of Lucy Tran as an Analyst in Money Laundering Risk & Compliance. Lucy is a graduate from a joint program at the University of Guelph Humber where she earned both a Bachelor's degree and a Diploma in Business Administration with an emphasis on international business. She went on to complete Seneca's Post Graduate Certificate in Financial Services Compliance Administration.
Lucy supports the WM-AML team with analysis and development of money laundering risk and compliance programs.

**Welcome Ray, Roman, Alla, William, Andrew, and Lucy to our team.**

### Eric Ngai

Eric has joined the firm as a staff accountant. Eric is a recent graduate of University of Waterloo. He worked an eight month work term with us in 2009. Welcome back Eric.

### Renaldo Heard, CA, CFP

Renaldo was successful on the Certified Financial Planners ("CFP") examination that took place across Canada this June. The CFP examination is 6-hour exam administered by the Financial Planners Standards Council and was the last formal examination on route to becoming a Certified Financial Planner. Congratulations Renaldo.

| Winter 2010 Planner | | |
|---|---|---|
| | February 26th | Deadline for filing T4's and T5's for 2010 |
| | March 1st | 2010 RRSP contribution deadline |
| | March 31st | Deadline for filing T3 - Trust Returns; NR4 Returns |
| | March 31st | Deadline for filing WSIB Returns |
| | April 1st | Deadline to qualify for personal tax return "Early Bird Draw" |


## CONTACT US

You can reach us by phone at **416.969.8166,** e-mail at **team@williamsandpartners.com**, or on-line at **www.williamsandpartners.com.**


## NOTICE

Williams & Partners distributes tax tips on a regular basis via email to our clients. If you wish to be on our email distribution list for tax tips, please contact Jackie Pincente at 416-969-8166 ext. 235, or by email to jackie.pincente@williamsandpartners.com.