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Financial Reporting Standards for Private Enterprises

Commensurate with the requirement for publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) by 2011, the Accounting Standards Board (AcSB) has recently decided to develop a separate set of accounting standards for private enterprises based on the existing CICA Handbook – Accounting. The AcSB is fast-tracking this project with the expectation that it will be completed by the end of 2008.

This set of standards for private enterprises will stand alone, in that, an entity will not be required to refer to IFRS. The standards will be available for use by all private enterprises. There will be no size thresholds or other qualifiers, such as the unanimous consent from shareholders now required for differential reporting.

The AcSB has concluded that the standards for private enterprises will share the same conceptual framework as publicly accountable enterprises (i.e., currently Section 1000 in the Handbook). It has identified and will be addressing a limited number of problematic areas such as: financial instruments, including retractable preferred shares, consolidation and accounting for affiliates, future income taxes, asset retirement obligations, employee future benefits, leases, current/non-current classification, goodwill and other intangibles, and share-based payments.

The AcSB expects that the majority of the recognition, measurement and presentation standards in the existing Handbook is relevant to private enterprises and will be retained with few, if any, modifications. One of the inputs to be considered will be the Framework for Owner-managed Enterprises (FOME) developed by the CICA in late 2007. CMA members are encouraged to review the FOME white paper, starting with the *Foreward*, at the following link:
http://www.cica.ca/index.cfm/ci_id/42389/la_id/1.htm

The AcSB has indicated that the first step in the process will be the identification of specific Handbook sections that are irrelevant for private companies in order to exclude them from the new standards.

Private enterprises will have the option of implementing IFRS and should not arbitrarily adopt private enterprise standards. This will be a strategic decision to be made by management on the basis of the entity's future plans and objectives. For example, if an entity intends to obtain equity or debt financing in public

markets (go public) or if its owners' plan to sell the business, it might want to adopt IFRS instead of private enterprise standards.

Additional information regarding the Financial Reporting Standards for Private Enterprises is located on the AcSB website at the following link:

http://www.acsbcanada.org/index.cfm?ci_id=29407&la_id=1

The full text of the outline, objective and timetable for the development of the standards of private enterprises can be downloaded from the website.

The AcSB continues to deliberate on the future basis for setting standards for the **not-for-profit** sector and has indicated that the initiative to establish a new set of standards applicable to private enterprises may result in standards that could be beneficially applied by many, perhaps the majority of, not-for-profit organizations. It is also considering whether the existing CICA Handbook Section 4400 might be retained with the cross-references changed to IFRS.