

IFRS Financial Statements, Reporting and Disclosures: Are You Prepared for the 135-Day Crunch?

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The Accounting Standards Board (AcSB) has set January 1, 2011 as the date of conversion from Canadian GAAP to International Financial Reporting Standards (IFRS). This means that the December 31, 2010 financial statements will be your company's last reporting under Canadian GAAP. Calendar year-end companies have 90 days to issue their 2010 annual Canadian GAAP financial statements, followed by 45 days for Q1 interim IFRS financial statements (along with Q1 2010 IFRS comparatives); in other words, from January 1 to May 15, 2011. This has been affectionately termed the "135-day crunch". The timeline on the following page illustrates the financial reporting activities that Canadian companies will need to perform during the conversion to IFRS.

Transition Reporting Requirements

Looking at the timeline, January 1, 2010, seems very near. This is the transition date for Canadian companies trying to take advantage of any elections under IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Indeed, for many companies, the accounting policy choices that relate to specific exemptions permitted by IFRS 1 have already been made, or will be decided shortly. Given that IROs will have varying levels of exposure to IFRS projects within their companies, it is worthwhile to consider how the transition to IFRS will change financial reporting, both on transition and going forward.

Once the transition date of January 1, 2010 passes, accounting departments will begin to assemble both the opening IFRS balance sheet, and some interim reporting information that will be needed for the 2011 interim reporting comparative figures and disclosures. The requirements to report under Canadian GAAP in 2010 haven't changed, so we expect most companies will prepare IFRS quarterly information in tandem with regular interim reporting. Ideally, much of this work should be completed during 2010, as preparing the IFRS-required reconciliations will be a challenge in the first quarter of 2011, and it's important to provide management with ongoing information on the impact of IFRS. In order to give a sense of the extent of financial reporting that needs to be produced during the 'crunch', we list below the IFRS financial statements, information and reconciliations that will be required for Q1 2011:

First-time adoption requirements in Q1 2011

Balance sheets for:

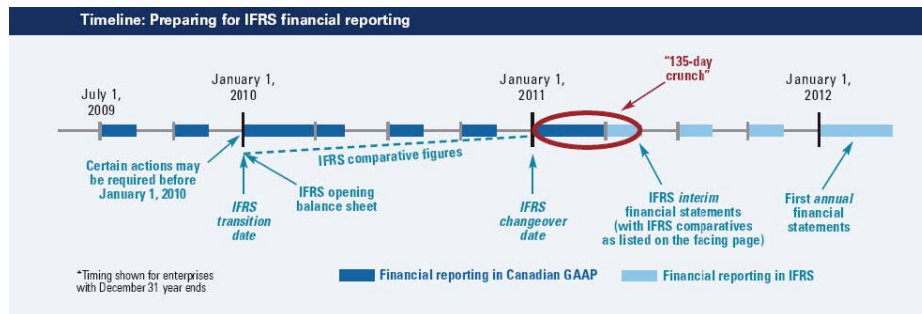
- March 31, 2011;
- Restated December 31, 2010; and
- Restated January 1, 2010.

Income statements for three months ended:

- March 31, 2011; and
- Restated March 31, 2010.

Statement of cash flows for three months ended:

- March 31, 2011; and
- Restated March 31, 2010.



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Statement of changes in equity for three months ended:

- March 31, 2011;
- Restated March 31, 2010;
- Reconciliations (Canadian GAAP to IFRS);
- Equity at transition date (January 1, 2010);
- Equity at end of comparative annual period (December 31, 2010);
- Equity as at comparative interim date (March 31, 2010);
- Comprehensive income for the annual period (December 31, 2010); and
- Comprehensive income for comparative interim period (March 31, 2010).

Many other considerations, for instance:

- Full set of IFRS accounting policies;
- Material adjustments to the cash flow statement; and
- Information regarding impairment losses or reversals recognized at transition.

Although the reconciliations are specifically required on first-time adoption, companies should not underestimate the fact that presentation of financial statements under IFRS is not the same as under Canadian GAAP, and even traditional reporting, like the income statement, may look different under IFRS.

Differences in Income Statement Presentation

Under IFRS, expenses are classified by nature or by function based on which method provides information that is reliable and more relevant. To classify by nature, expenses are aggregated in the income statement according to their nature (for example: depreciation; purchases of materials; transport costs; employee benefits; and advertising costs), and are not reallocated among functions within the entity. This method may be easier to apply because allocations of expenses to functional classifications are not necessary.

Alternatively, classification by 'function' aggregates expenses according to the function they relate to (for example: cost of sales and cost of distribution). This method may provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary decisions and involve considerable judgment. Under this method all expenses, including staff costs, depreciation and amortization, should be allocated to the appropriate functions. Also, if classification by function is chosen, additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense, must be disclosed.

Most Canadian companies currently present expenses in the income statement using a mix of nature and function, which is prohibited under IFRS. The appropriate choice between the use of function or nature will depend on historical and industry factors. IROs will want to weigh in on this decision and be cognizant of what competitors are doing locally, if possible, and internationally. In some cases industry groups may have adopted predominantly one style for presentation. In countries that have already adopted IFRS, manufacturing companies typically present expenses by function and retail companies present it by nature. If gross profit is a key performance measure that analysts use to track your company, then presenting your expenses by function may be preferable. However, presenting expenses by function requires more allocation and may require more data than accounting systems are currently providing.

On the following page is an extract of an income statement presented by function, followed by the same income statement presented by nature.

Conclusion

While we've focused in this article on financial statements on transition, and the new income statement specifically, in upcoming columns we will look at transition differences that will change the information communicated to investors through the financial reporting process. IROs need to understand the Canadian GAAP/IFRS accounting differences that are starting to be discussed in the MD&A, and how financial information will be presented in the financials after 2011. IROs can provide valuable feedback as to what information will be important for investors. The time to influence presentation decisions is now, as there will be little appetite for changing plans during the 'crunch time', and many companies will begin compiling comparative information for the first interim statements in the first half of 2010.

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Consolidated income statement (by function)

For the year ended December 31

In thousands of Canadian dollars

	Note	2011	2010
Continuing operations			
Revenue	10	100,160	96,636
Cost of sales		-55,805	-56,186
Gross profit		44,355	40,450
Other income	11	1,095	315
Distribution expenses		-17,984	-18,012
Administrative expenses		-17,142	-13,269
Research and development expenses		-1,109	-697
Other expenses	12	-460	-2,000
Results from operating activities	6	8,755	6,787

Consolidated income statement (by nature)

For the year ended December 31

In thousands of Canadian dollars

	Note	2011	2010
Continuing operations			
Revenue	10	100,160	96,636
Other income	11	1,095	315
Changes in inventories of finished goods and work in progress		748	-2,305
Raw materials and consumables used		-42,474	-43,583
Salaries and wages		-44,152	-32,439
Employee benefit expense		-522	-500
Depreciation and amortization expense	16, 17	-5,690	-5,897
Reversal of impairment (losses) of property, plant and equipment	16	393	-1,123
Gain on disposal of property, plant and equipment	11	26	100
Impairment losses on intangible assets	17	-16	-285
Impairment losses on assets classified as held for sale	8	-25	-
Change in fair value of biological assets	18	650	50
Net increase in biological assets due to births (deaths)	18	11	15
Change in fair value of investment property	19	120	100
Restructuring expenses		-	-1,600
Research and development expenses		-1,109	-697
Other expenses	12	-460	-2,000
Results from operating activities	6	8,755	6,787

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