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Accounting Profession in Canada, Second Edition Revised; Professional Accounting in Foreign Country Series

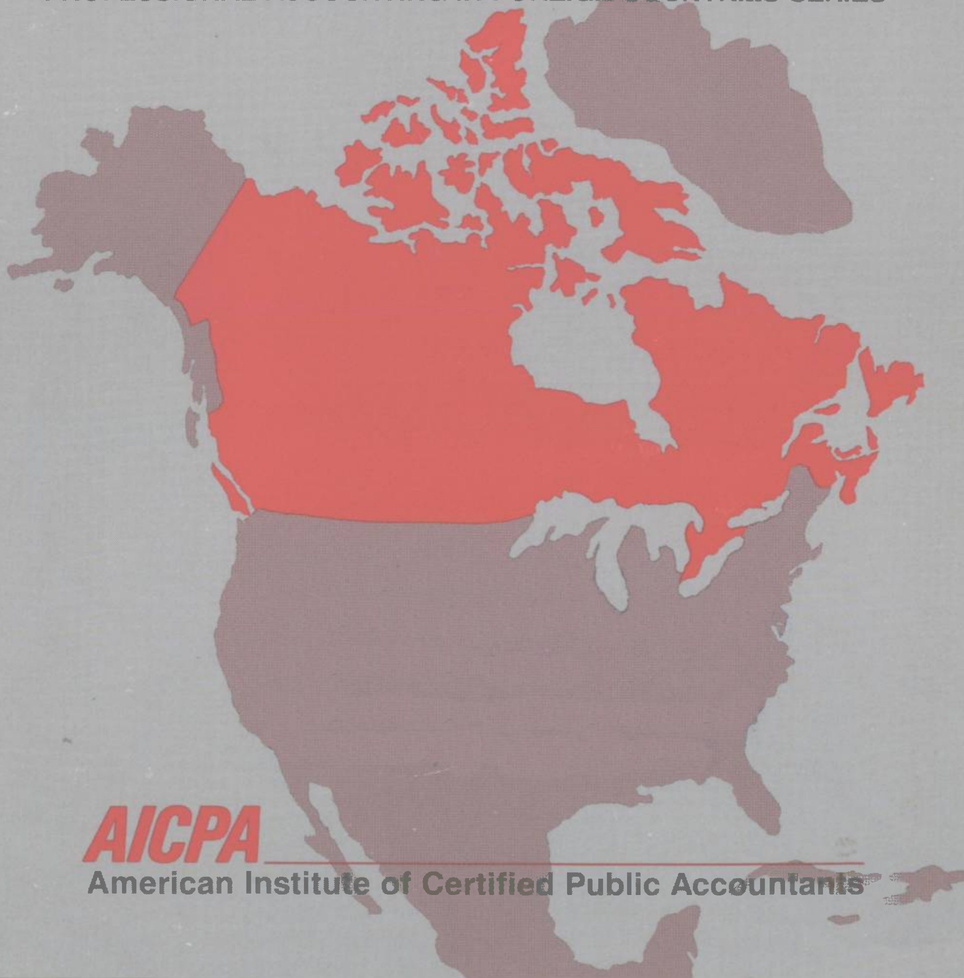
Fuller Jenks Landau, Canad

Steven F. Moliterno

SECOND EDITION, REVISED

The Accounting Profession in Canada

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA

American Institute of Certified Public Accountants

The Accounting Profession in Canada Second Edition, Revised
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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SECOND EDITION, REVISED

The Accounting Profession in Canada

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

Fuller Jenks Landau
Chartered Accountants
Canada

on behalf of

HLB International

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AICPA

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of April 1990. Changes after this date in the standards of either the United States or Canada may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Canada. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Canadian auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Canada but is designed instead to focus primarily on differences from those of the United States.

John Graves
Director—Technical Services

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The three recognized accounting bodies in Canada are the Canadian Institute of Chartered Accountants (CICA), the Association of Certified General Accountants (CGA), and the Society of Management Accountants (CMA); they can be reached at the following addresses:

The Canadian Institute of Chartered Accountants
150 Bloor Street West
Toronto, Ontario M5S 2Y2

Certified General Accountants' Association of Canada
1176 West Georgia Street
Suite 740
Vancouver, B.C. V6E 4A2

The Society of Management Accountants of Canada
154 Main Street East
P.O. Box 176 M.P.O.
Hamilton, Ontario L8N 3C3

2. The practice of public accountancy in Canada is regulated by each provincial government. In most provinces, this has been

restricted to chartered accountants (CAs). The responsibilities of the national body of the CICA are as follows:

- Accounting and auditing research, in both private and public sectors, including developing authoritative accounting and auditing standards
- Acting as liaison with the federal government, agencies (public and private), and national organizations
- Expression of the profession's viewpoint on national matters of concern
- Publication of a professional journal and other publications
- National communications and public relations
- Representation of the Canadian profession internationally

3. The responsibilities of the provincial institutes are as follows:

- Education, training, and admission of new members
- Professional conduct and ethics, including discipline and the investigation of complaints
- Acting as liaison with provincial governments, agencies, and organizations
- Provincial public relations and community service programs

4. The provincial institutes share certain responsibilities with the CICA, including long-range planning for the profession as a whole, and continuing professional development programs and courses for CAs.

Foreign Reciprocity

5. Any foreign accountant may apply to the provincial body for admission to become a chartered accountant. The minimum requirements before an application will be considered are the successful completion of examinations in law, tax, and the *CICA Handbook** and the province's rules of professional conduct. Each applicant is carefully screened and his or her background reviewed to determine what additional courses must be completed.

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*The *CICA Handbook* contains the codified accounting principles and auditing standards of the CICA's Accounting Standards Committee.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

6. Generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS) have been codified over time in the *CICA Handbook* by the Accounting Standards Committee and the Auditing Standards Committee of the CICA. The *Handbook* has gained quasi-legal status from the recognition by securities administrators and in federal and provincial legislation that it constitutes the formal principles and standards for financial reporting and public accounting in Canada.

7. In addition to the pronouncements contained in the *Handbook*, guidelines addressing accounting and auditing issues are issued periodically. Although well researched, these guidelines have not gone through the full consultation process between members and interested parties in business, labor, government, and academics as required for the issuance of pronouncements.

8. An Emerging Issues Committee of the Canadian Institute of Chartered Accountants was created in 1988. This committee meets regularly to review emerging accounting issues that are likely to receive a divergent or unsatisfactory treatment in the absence of some guidance. Abstracts of the committee's views are made public.

9. Research studies and audit technique studies are also issued periodically on a wide range of subjects. These studies are published individually, although they may also serve as the basis for subsequent pronouncements.

Ethics Requirements

10. Each provincial institute is responsible for setting the standards of professional conduct to be followed by its members. These rules are comprehensive in scope, practical in application, and addressed to high ethical standards.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

11. Although each provincial Institute of Chartered Accountants sets its own requirements, generally the following steps must be taken for admission:

a. Earn a university degree.
b. Obtain employment with a public accounting firm approved to train students.
c. Attend courses run or approved by the provincial Institute, pass a series of provincial examinations, or otherwise gain provincial approval to sit for the national examinations.
d. Pass a set of national examinations.
e. Serve a minimum term with an approved public accounting firm.

Rights of Membership

12. On completing these steps, a member gains the right to use the designation "chartered accountant" and, depending on provincial rules, has the right to use the initials FCA (Fellow of the Chartered Accountants), ACA (Associate of the Chartered Accountants), or CA after his or her name.

Number of Members

13. There are approximately 47,000 chartered accountants in Canada; of these, approximately one half are engaged in public accounting.

CPE Requirements

14. All CAs are expected and encouraged to keep current with the continually changing requirements of the profession. Both the national and the provincial institutes maintain active professional development programs, not only in the core technical areas of accounting, auditing, and taxation, but also in such subject areas as

management techniques, practice development, current legislation, computers, and financial planning.

15. In addition, many provincial institutes have a practice advisory service to assist in dealing with specific problems, as well as a mandatory practice inspection program that monitors members' standards of practice.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

16. In Canada, a company may be incorporated under either federal or provincial legislation. Each provincial legislation parallels the legislation of the federal government.

17. The purpose of the statutory audit is not formally defined in the law. However, *CICA Handbook* section 5000.01 states:

> The objective of an audit of financial statements is to express an opinion (usually to the shareholders) on the fairness with which they present the financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles, or in special circumstances another appropriate disclosed basis of accounting, consistently applied. Such an opinion is not an assurance as to the future viability of an enterprise nor an opinion as to the efficiency or effectiveness with which its operations, including internal control, have been conducted.

Entities Required to Be Audited

18. Under most legislation, the financial statements of a company must be audited unless all of the following are true:

- Securities are not offered to the public.
- All shareholders agree in writing each year.

- The company and its affiliates have assets not exceeding $5 million (Canadian dollars) and gross revenues not exceeding $10 million ($2.5 million and $5 million, respectively, for Ontario corporations, including Canadian resident affiliates), or it has obtained an exemption, if available, under the legislation.

Appointment and Qualifications of Auditors

19. At their first annual or special meeting, the shareholders appoint the auditor to hold office until the next annual meeting. If the shareholders fail to do so, the directors make the appointment.

20. Shareholders may remove the auditor before the end of his or her term by a majority of votes cast at a special meeting called for that purpose. The auditor must be notified and provided with all material proposed to be sent to the shareholders in this connection. The auditor also has the right to make representations to the shareholders.

21. No auditor is to accept an appointment until he or she has requested and received from the preceding auditor a written statement of the circumstances and reasons why, in that auditor's opinion, he or she is to be replaced. If a response is not received within fifteen days, the auditor may accept the appointment.

22. An auditor must be independent and must comply with the rules of ethics of the organization to which he or she belongs.

Auditing and Reporting Responsibilities

23. *CICA Handbook* section 5000 states:

> The operations of an enterprise are under the control of management, which has the responsibility for the accurate recording of transactions and the preparation of financial statements in accordance with generally accepted accounting principles. These responsibilities include designing and maintaining accounting records and internal controls, selecting and applying accounting policies, safeguarding assets, and preventing and detecting fraud and error. An audit of the financial statements does not relieve management of its responsibilities. The auditor may make suggestions as to the form or content of the financial

statements or may draft them in whole or in part, based on management's accounting records. However, financial statements remain the representations of management.

In the performance of an audit of financial statements, the auditor complies with generally accepted auditing standards, which relate to the auditor's qualifications, the performance of the examination and the preparation of the report.

In performing his or her examination, the auditor seeks reasonable assurance that the financial statements taken as a whole are not materially misstated. The auditor normally designs his or her auditing procedures on the assumption of management's good faith, and exercises professional judgment in determining the nature, extent and timing of those procedures, in evaluating their results and in assessing determinations made by management. Absolute assurance in auditing is not attainable as a result of such factors as the need for judgment, the use of testing, the inherent limitations of internal control, and the fact that much of the evidence available to the auditor is persuasive rather than conclusive in nature.

24. The auditor has a statute-protected right of access to all books, records, information, and explanations that he or she requests. In addition, the financial statements required by most legislation specifically state that they are to be prepared in accordance with generally accepted accounting principles as set forth in the *CICA Handbook.*

Filing of Reports

25. For a company offering its securities to the public, the financial statements of management are first submitted for review to an audit committee composed of no fewer than three directors of the company, a majority of whom are not officers or employees of the company or of any of its affiliates. The audit committee then reports to the board of directors, which is responsible for approving the statements. Within six months of the year-end date, the statements, with the auditor's report, are presented to the shareholders at the annual meeting. A copy of the statements with the auditor's report must also be filed with the provincial securities commission.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

26. Auditing procedures in the United States are more codified than those in Canada. However, as can be seen from the comparison of auditing procedures in the accompanying checklist (appendix D), predominant Canadian practice parallels that of the United States. Appendix A contains a list of auditing recommendations issued by the CICA.

General Standard

27. Generally accepted auditing standards in Canada include one general standard that states the following: "The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind."

Standards of Fieldwork

28. The standards of fieldwork in Canada are referred to as "examination standards." There are three examination standards:

a. The work should be adequately planned and properly executed. If assistants are employed, they should be properly supervised.

b. There should be an appropriately organized study and evaluation of those internal controls on which the auditor subsequently relies in determining the nature, extent, and timing of auditing procedures.

c. Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, inquiry, confirmation, computation, and analysis, to afford a reasonable basis to support the content of the report.

Standards of Reporting

29. The following are the Canadian standards of reporting:

a. The scope of the auditor's examination should be referred to in the report.

b. The report should contain either an expression of opinion on the financial statements or an assertion that an opinion cannot be expressed. In the latter case, the reasons therefor should be stated.

c. When an opinion is expressed, it should indicate whether the financial statements present fairly the financial position, results of operations, and changes in financial position in accordance with an appropriately disclosed basis of accounting, which, except in special circumstances, should be generally accepted accounting principles. The report should provide adequate explanation with respect to any reservation contained in the opinion.

d. When an opinion is expressed, the report should also indicate whether the application of the disclosed basis of accounting is consistent with that of the preceding period. If the basis or its application is not consistent, the report should provide adequate explanation of the nature and effect of the inconsistency.

30. The standard form of auditor's report follows.

AUDITOR'S REPORT

To the Shareholders of ______________________

I have examined the balance sheet of ____________ as at ____________, 19_____, and the statements of income, retained earnings, and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the company as at ____________, 19_____, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[*City*] ____________________ [*Signature*] ____________________
Chartered Accountant
[*Date*] ____________________

31. The circumstances that require a departure from the standard report and type of report required are as follows:

a. *Departure from generally accepted accounting principles: either a qualification of opinion or an adverse opinion. CICA Handbook* section 5510.19 states that a qualified opinion (that is, "except for . . .") should be given unless, in the auditor's opinion, the departures render the financial statements misleading or virtually useless even when read in conjunction with the report. In the latter case, the auditor should express an adverse opinion (that is, "do not present fairly . . .").

b. Scope limitation: either a qualification of opinion or a denial of opinion. *CICA Handbook* section 5510.22 states that a qualified opinion should be given unless the limitation is such that, in the auditor's opinion, the effect on the financial statements of possible departures from generally accepted accounting principles could be so pervasive or significant that the auditor has no basis for an opinion on the financial statements taken as a whole. In the latter case, he or she would deny an opinion (that is, "unable to express an opinion . . .").

32. *CICA Handbook* section 5400.19 states that "when there is a departure from a Handbook Recommendation and the auditor concludes that following the Recommendation would result in misleading financial statements, he or she should express an opinion without reservation, provided the related disclosure is adequate." U.S. standards also provide for an unqualified opinion in these circumstances, but require full disclosure within the report of the departure, the approximate effects thereof, and the reasons compliance would result in misleading statements.

33. In Canada, according to *CICA Handbook* section 5510.46, "when a contingency is accounted for and disclosed in accordance with generally accepted accounting principles, it is not appropriate to draw attention to the contingency by expressing a reservation of opinion or by mentioning it in a separate paragraph following the auditors' standard report."

34. *CICA Handbook* section 5510.53 states that the auditors' reporting considerations (relating to issues of a going-concern nature) are the same as those with respect to contingencies. Financial statement disclosure must explicitly draw the reader's attention to the problem. U.S. standards would require the auditor's report to include an explanatory paragraph when there is a substantial doubt regarding an entity's ability to continue in existence.

35. It should also be noted that Canadian practice does not permit the use of the qualifying phrase "subject to." It is thought not to be sufficiently clear or forceful.

36. As in the United States, disclosure of the effects of inflation is presented as supplementary information in Canada, and as supplementary information, the disclosures are beyond the scope of the auditor's standard report. A lack of disclosure would not result in a reservation in the auditor's report.

37. Auditing standards for long-term investments have not been codified in Canada, although the guidance provided in the United States would be the predominant practice.

38. The Canadian auditor's opinion extends to the comparative figures only if specifically stated in the report. This is rarely done, although beginning in December 1989, it is required by the Ontario Securities Commission for publicly listed companies. Auditors are required to ensure that the financial statements or a final paragraph of the report discloses whether the comparative information is unaudited or was reported on by another auditor. In addition, if the comparative figures were subject to a reservation of opinion, it would be disclosed as a final paragraph in the report unless the reservation is no longer relevant.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

39. The Accounting Standards Committee of the Canadian Institute of Chartered Accountants has codified accounting principles in the *CICA Handbook.* The *Handbook* has gained status from recognition by securities administrators and federal and provincial legislation as containing the formal principles. (The accounting recommendations of the *CICA Handbook* are listed in appendix B.) In addition, the rules of professional conduct of the provincial institutes of chartered accountants state that an opinion without reservation that the financial statements are prepared in accordance with generally accepted accounting principles is not to be given if the statements depart in any material respect from the recommendations contained in the *CICA Handbook.*

40. Codification of GAAP in Canada is not as extensive as in the United States. The emphasis in Canada is to use professional judgment in determining what constitutes fair presentation or good practice. When GAAP has not been codified, a practitioner would usually look to CICA guidelines, research studies, abstracts of the CICA Emerging Issues Committee, published financial statements of companies in the industry involved, authoritative Canadian literature, International Accounting Standards, and the literature of other countries, including U.S. pronouncements.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

41. There are no significant differences between Canada and the United States in the form and content of financial statements other than those that result from differences in GAAP, as described in paragraphs 43 through 94 and in appendix E. Illustrative Canadian financial statements are presented in appendix C.

Types of Statements Prepared

42. The directors of a company shall submit to the shareholders at the annual meeting the following audited statements in comparative form:

a. Balance sheet

b. Income statement

c. Statement of retained earnings

d. Statement of changes in financial position

Consolidated financial statements are required for a company with subsidiaries unless the parent company is a subsidiary of another company that files consolidated statements or if the principal purpose of the parent company is to hold investments in subsidiaries.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

43. Canada and the United States are close neighbors that engage in extensive investment and trade dealings. Consequently, the development of accounting principles and practices has resulted in more similarities than differences.

44. There are, however, a number of significant differences in codified accounting principles. In addition, the codification in the United States is much more extensive than in Canada. A discussion of significant Canadian generally accepted accounting principles and differences between Canadian and U.S. accounting principles follows.

Historical Cost Basis

45. Although it is rare to write up a fixed asset above historical cost, it is permitted by *CICA Handbook* section 3060.04 in unusual circumstances (such as a reorganization). There must be disclosure of the basis of valuation and the date of the appraisal. In addition, for five years the statements must disclose the name of the appraiser, the basis of the valuation, and the disposition of the appraisal adjustment. Depreciation expense is based on the appraised value.

46. In 1989 the consensus of the Emerging Issues Committee was that the only circumstance when a write-up of fixed assets to appraised values is appropriate is when the entire balance sheet is revalued as part of a reorganization.

47. An accounting guideline permits the use of "push-down accounting" when a subsidiary is acquired in a purchase transaction only when (a) virtually all voting common shares have been acquired and (b) no significant outstanding public interest remains in the debt or shares of the company.

Interest Costs During Construction of an Asset

48. There are no policy statements permitting or prohibiting the capitalization of interest costs in Canada, although in the real estate industry it is generally accepted to capitalize interest and other carrying costs on properties held for, and under, development. In general, interest is capitalized when the cost of the project is significant to total fixed assets or when the related interest cost is sufficiently large that it would distort the income statement. Disclosure of the amount of capitalized interest is required by *CICA Handbook* section 3850.03.

Consolidated Financial Statements

49. In Canada, consolidation is required of a company that owns, directly or indirectly, a majority of shares and thus has the right to elect at least a majority of the members of the board of directors. Exceptions are as follows:

- Increases in equity are not likely to accrue to the parent. (Use the cost method.)
- Control over the subsidiary's assets or operations is seriously impaired. (Use the cost method.)

- Control is temporary because a formal plan exists to dispose of the investment. (Use the lower of estimated net realizable value or the carrying value resulting from the use of the equity method.)
- The subsidiary is a bank, and its financial statements are neither prepared in accordance with GAAP nor conformed to this basis. (Use a modified equity basis.)
- Financial statement components of the subsidiary are so dissimilar that consolidation would not provide a more informative presentation. (Use the equity method and include separate financial statements.)

Application of the Equity Method

50. The equity method is appropriate in Canada when an investor has the ability to exercise significant influence over an investee. Although there is a presumption that less than 20 percent of voting interest results in an inability to exercise significant influence, the holding of 20 percent or more does not result in the opposite presumption.

Business Combinations

51. In Canada, the pooling-of-interests method should be used to account for those rare business combinations in which it is not possible to identify one of the parties as an acquirer. Consequently, it is seldom used. Costs relating to the combination are treated as a capital transaction.

52. As in the United States, the purchase method is used when the pooling-of-interests method is not appropriate. In Canada, however—

a. Deferred income taxes of the acquired company are recorded.
b. The potential benefits of loss carryforwards are recognized if there is reasonable assurance of realization.
c. Contingent assets are not recorded.
d. Negative goodwill is eliminated by the reduction of nonmonetary assets on a judgmental basis.

Inflation Accounting

53. Supplementary disclosures are required when either inventory plus property, plant, and equipment before deducting accumulated depreciation exceeds $50 million or total assets after accumulated

depreciation exceed $350 million. As supplementary information, the lack of disclosure by management would not result in a reservation in the auditor's report. In addition, exemptions include income-producing real estate assets, banks, trust companies, and insurance companies.

54. Supplementary disclosures are essentially the same as those in the United States and should include the following:

- Current cost amounts of cost of goods sold and of depreciation, depletion, and amortization, or the amounts of the current cost adjustments for those items
- The current and deferred amounts of income tax expense
- Income before discontinued operations and extraordinary items, after reflecting the foregoing items
- The amount of change during the reporting period in current cost amounts of inventory and property, plant, and equipment, identifying the reduction from current cost to lower recoverable amount
- The carrying value of inventory and property, plant, and equipment on a current cost basis at the end of the reporting period, identifying the reduction from current cost to lower recoverable amount
- Net assets after restating inventory, property, plant, and equipment on a current cost basis at the end of the reporting period
- The amount of the financing adjustment, separately identifying the amount that would result if the financing adjustment was based on current cost adjustments made to income for the period
- The amount of the gain or loss in general purchasing power that results from holding net monetary items during the reporting period
- An explanation of the information disclosed, a description of the bases and methods used in its presentation, and a narrative discussion of its significance
- Presentation on a comparative basis, showing the amounts for the preceding period restated for the change in the general purchasing power of the dollar

Leases

55. When the benefits and risks of ownership related to a leased property are substantially retained by the lessor, a lease should be accounted for as an operating lease by the lessee and lessor.

56. The lessee under an operating lease should disclose the future minimum lease payments, in the aggregate and for each of the five succeeding years. The nature of other commitments under the lease should also be described.

57. The lessor under an operating lease should disclose the cost of property held for leasing purposes, the amount of accumulated depreciation, and rental income.

58. A lease that transfers from the lessor to the lessee substantially all the benefits and risks of ownership related to the leased property should be accounted for as a capital lease by the lessee and as a sales-type or direct financing lease by the lessor. Guidelines are available, but there are no specific rules as there are in U.S. practice.

59. For a lessee under a capital lease—

- The gross amount of assets under capital leases and related accumulated amortization should be disclosed.
- Obligations related to leased assets should be shown separately from other long-term obligations. Particulars of obligations related to leased assets, including interest rates and expiry dates, should be shown separately from other long-term obligations. Significant restrictions imposed on the lessee as a result of the lease agreement should be disclosed.
- Any portion of lease obligations payable within a year out of current funds should be included in current liabilities.
- Disclosure should be made of the future minimum lease payments in aggregate and for each of the five succeeding years. A separate deduction should be made from the aggregate figure for amounts included in the minimum lease payments representing executory costs and imputed interest.
- The amount of amortization of leased property included in the determination of net income should be disclosed separately or as part of depreciation and amortization expense for fixed assets. Disclosure should also be made of methods and rates of amortization.
- Interest expense related to lease obligations should be disclosed separately or as part of interest on long-term indebtedness.

60. The lessor's net investment in direct financing and sales-type leases should be disclosed and, in a classified balance sheet, segregated between current and long-term portions. Finance income from direct

financing or sales-type leases should be disclosed. Disclosure should be made of how the investment in leases has been computed for purposes of recognizing income.

Noncurrent Liabilities

61. Noncurrent liabilities are not defined in Canada. Current liabilities include the following:

- Amounts payable within one year or within the normal business cycle if longer than one year
- Current accumulated tax allocation credits
- Amounts received or due on goods to be delivered or services to be performed within one year from the date of the balance sheet, if not offset by a related asset

62. Excluded from current liabilities are obligations otherwise classified as current liabilities where contractual arrangements have been made for settlement from other than current assets.

Development Costs

63. Development costs are expensed when incurred except as described in the following paragraph. Once expensed, development costs cannot be reinstated.

64. Development costs should be deferred to the extent that their recovery can be reasonably assured if all the following criteria are satisfied:

a. The product or process is clearly defined and the costs attributable thereto can be identified.
b. The technical feasibility of the product or process has been established.
c. The management of the enterprise has indicated its intention to produce and market, or use, the product or process.
d. The future market for the product or process is clearly defined or, if it is to be used internally rather than sold, its usefulness to the enterprise has been established.
e. Adequate resources exist, or are expected to be available, to complete the project.

65. Deferred development costs should be amortized on a systematic and rational basis by reference, where possible, to the sale or

use of the product. Amortization should commence on commercial production or use of the product or process.

66. At the end of each accounting period, the account should be reviewed. If the criteria for deferral are no longer met, the balance should be expensed. Similarly, if the amount exceeds the amount of reasonably assured recovery, the excess should be expensed.

Extraordinary Items

67. For a transaction or event to be classified as extraordinary, it must have all of the following characteristics:

a. It is not expected to occur frequently over several years.

b. It does not typify a normal business activity.

c. It does not depend primarily on decisions or determinations made by management or owners.

68. Should an extraordinary item result in a discontinued operation, any gain or loss must be reported as an extraordinary item rather than in conjunction with the results of discontinued operations.

Pension Plans

69. Accounting for pension plans in Canada closely parallels that in the United States. However, in Canada—

- There is no requirement to book any part of the unfunded accumulated benefit obligation or its related intangible asset.
- The amount deferred relating to changes in assumptions and experience gains and losses is amortized over the estimated average remaining service life of the employee group. The concept of a percentage below which no amortization of unrecognized net gain or loss is included as a component of net pension cost does not exist.
- Actuarial valuations are performed "periodically . . . although the period would not normally exceed three years . . . (with extrapolation used in the years between valuations)."
- The treatment of annuity contracts, multiple-employer plans, and out-of-country pension plans has not been specifically addressed.

70. Although in Canada there are a number of desirable disclosures, the requirements are much less extensive. Following are required disclosures:

For a defined benefit pension plan:

- The actuarial present value of accrued pension benefits attributed to services rendered as of the reporting date
- The value of pension fund assets

For a defined contribution pension plan:

- The present value of required future contributions for past service

Accounting for Income Taxes

71. Currently, accounting for income taxes in Canada is essentially the same as in the United States. Deferred taxes are provided for all timing differences except as follows:

a. Regulated and similar enterprises may be exempted if specific conditions are met.

b. The potential tax benefits of loss carryforwards are normally not recorded unless there is virtual certainty of realizing the benefit.

c. Deferred tax debits resulting from timing differences in a loss period should not be recognized unless there is reasonable assurance that the timing differences will be reversed.

72. The income tax disclosures required for Canadian companies are also virtually the same as in the United States, and include the following:

- Accumulated tax allocation credits, debits, or both should be segregated in the balance sheet between the categories "current" and "noncurrent" according to the classification of the assets and liabilities to which they relate.
- Current accumulated tax allocation debits or credits should be shown in the current assets or current liabilities.
- Noncurrent accumulated tax allocation debits or credits should be shown as a deferred charge or as a deferred credit outside shareholders' equity.
- The income statement should disclose the total provision for income taxes.
- The amount by which the current income tax provision has been increased or decreased as a result of tax deferrals should be disclosed. Disclosure need not be in the income statement.
- An enterprise whose securities are traded in a public market or that is required to file financial statements annually with a securities

commission should disclose in its financial statements the components of the variation from the basic income tax rate. Significant offsetting items included in the income tax provision should be disclosed even when there is no variation from the basic income tax rate.

- The related tax effect for discontinued operations and extraordinary items should be shown separately in the income statement with the discontinued operations or extraordinary items, and not as part of the provision for income taxes included in "income before discontinued operations and extraordinary items."
- To provide a proper matching of costs and revenues, reductions or increases in income taxes attributable to items included in retained earnings should also be included and disclosed in retained earnings.
- If potential tax benefits resulting from business losses have not been recognized in the financial statements, the following information should be disclosed:
  a. The amount of the loss carryforward(s) for tax purposes, excluding the portion that will result in a credit of a tax benefit to deferred tax accounts upon recognition
  b. The expiration date(s) of the loss carryforward(s)
  c. Any timing differences that, if recognized, would result in a deferred income tax debit
- Deferred income tax debits resulting from timing differences in a loss period should not be recognized unless there is reasonable assurance that these timing differences will be reversed. In the absence of such assurance, deferred income tax debits accumulated in prior periods should be written off.
- If a tax benefit resulting from a loss carryforward was not recorded in the period in which the loss occurred, it should be shown in the income statement(s) of the period(s) of realization.
- The recovery of refundable taxes previously charged to retained earnings should be credited to retained earnings and should be separately disclosed.

Foreign Currency Translation

73. The method of accounting for and measuring the effect of foreign currency transactions of the reporting company and those of an integrated or self-sustaining subsidiary are basically the same in Canada and the United States. The major differences follow.

- In Canada, transaction gains or losses on long-term monetary items are deferred and amortized on a systematic and rational basis over the remaining life of the item.
- Deferred tax balances of integrated foreign operations are converted at historical rates.
- For a foreign exchange contract, asset, liability, or future revenue stream to be recognized as a hedge, there must be reasonable assurance of effectiveness as a hedge.
- It is desirable, but not required, to disclose income statement gains or losses.
- "Highly inflationary," when used to prohibit the current method, is relative to that of the reporting country and is not defined.
- Reductions in the shareholders' equity as a result of capital transactions, such as dividend distributions or capital restructuring, trigger a transfer to income of a proportionate share of the cumulative translation adjustment account.

Depreciation

74. Sinking-fund depreciation, which is not acceptable in the United States, has gained general acceptance in Canada in the real estate industry.

Accounting Changes

75. In Canada, a change from one accounting principle or method to a more appropriate principle or method is normally applied retroactively except in circumstances in which the data are not reasonably determinable. Financial statements presented for comparative purposes should normally be restated.

76. An exception to these recommendations, which conflicts with U.S. policy, is that changes to or from the consolidation method or the equity method are applied prospectively.

77. Canadian GAAP differs from U.S. GAAP in that, in the United States, the cumulative effect of an accounting change is normally included in current income. In Canada, retroactive treatment with restatement is required for changes in specific circumstances.

Compensated Absences

78. There are no policy statements in Canada relating to the treatment of costs such as vacation entitlement. Although general practice

is to accrue the estimated cost relating to employees who are paid by the hour, the cash basis is also used.

Earnings per Share

79. The significant differences in earnings per share between Canada and the United States are as follows:

- Canadian basic (primary) earnings per share are calculated only on outstanding shares, whereas in the United States, the calculation includes common stock equivalents.
- For calculating fully diluted earnings per share in Canada, income is increased by imputed earnings on cash that would be generated by exercise of options, warrants, and rights.

Investment Tax Credits

80. The only method of accounting for investment tax credits that is permissible in Canada is the cost reduction method. The credits are accrued in the year in which there is reasonable assurance that the credits will be realized.

Government Assistance

81. In Canada, government assistance, which includes grants and forgivable loans, is included in income if the assistance relates to current revenues or expenses, or is deferred and amortized to future income against future expenses.

82. The following disclosures are required with respect to assistance received and receivable in the current period:

- The amount thereof
- The amounts credited directly to income, deferred credit, or fixed assets
- The relevant terms and conditions applicable to the assistance
- The amount of any contingent liability for repayment

83. With respect to assistance received in prior periods for which any contingent liability for repayment exists, the following disclosures are required:

- The amount of the contingent liability
- The relevant terms and conditions applicable to the assistance

84. Disclosure is also required for—

- The amount of government assistance deferred, the period of amortization, and the basis of amortization of the deferral.
- The unforgiven balance of a forgivable loan together with an explanation of the terms and conditions relating to its forgiveness.

Joint Ventures

85. In Canada, if the venture enterprise is a subsidiary of one of the venturers, it is still considered a corporate joint venture. When a significant portion of the venture's activities is carried out through joint ventures, either the equity method or proportionate consolidation is permitted.

Marketable Securities

86. In Canada, there is no requirement that investments be valued in aggregate. Long-term portfolio investments are carried at cost as long as any decline in value is judged to be temporary. The calculation of gains or losses in Canada on disposal of investments is calculated on the basis of the average carrying value.

Statement of Changes in Financial Position

87. In Canada, classification of cash flows will depend on how the enterprise views the substance of the particular item and need not be restricted to the normal "operating," "financing," or "investing" activities. Accordingly, the acquisition or disposal of capital expenditures might be classified as an operating activity or a financing activity, interest costs could be classified as an operating activity or a financing activity, and dividends paid could be shown as an operating activity, a financing activity, or as a separate activity. There is no prohibition to disclosing cash flow per share.

Future Contracts (Other Than Foreign Exchange)

88. In Canada, there are no pronouncements specifically dealing with hedges, and "predominant practice" has not yet been established.

Troubled Debt Restructuring

89. In Canada, there are no specific pronouncements on this subject.

Compensation to Employees: Stock Purchase and Option Plans

90. In the United States, the calculation of employee compensation costs relating to stock purchase and option plans is codified. In Canada, there are no pronouncements, and U.S. accounting methods are not usually followed.

91. U.S. requirements include (*a*) disclosure of the aggregate liquidation preference of its outstanding preferred stock and (*b*) the requirement that an enterprise issuing a stock dividend shall capitalize retained earnings equal to the fair market value of stock dividend. There are no similar requirements in Canada.

Disclosure of Postretirement Health Care and Life Insurance Benefits

92. Although there are no pronouncements on this topic, the Emerging Issues Committee concluded in 1989 that disclosures that approximate those required in the United States by Financial Accounting Standards Board Statement No. 81, *Disclosure of Postretirement Health Care and Life Insurance Benefits,* should be made.

Transfers of Receivables

93. In 1989 the Emerging Issues Committee concluded that a transfer of receivables should not be recognized as a sale unless (*a*) the significant risks and rewards of ownership have been transferred and (*b*) reasonable assurance exists regarding the measurement of the consideration derived from the transfer.

Recognition of Depreciation by Not-for-Profit Organizations

94. In Canada, the policy followed in accounting for fixed assets should be disclosed. Where fixed assets are expensed immediately, the amount expensed should be disclosed. The method of accounting for fixed assets (such as capitalize and depreciate, capitalize with no depreciation, and expense immediately) are all presently acceptable.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

95. A company may incorporate under federal legislation (Canada Business Corporations Act, or "the Act") or provincial legislation. The incorporating documents establish rules and restrictions for such matters as officers, directors, and nature of business.

96. Shareholders and directors must meet at least once a year to approve financial statements and business transactions, appoint auditors, elect directors and officers, and conduct any other business that properly comes before the meetings. Under most legislation, the meetings need not be in Canada if certain conditions are met. One of the advantages of incorporation is that, under normal circumstances, a shareholder's liability is limited to the value of his or her investment.

97. Directors and officers generally are not liable for their actions if they act honestly and in good faith with a view to the best interests of the corporation, and if they exercise the care, diligence, and skill of a reasonably prudent person. The following specific situations may impose a personal liability on a director:

- Issue of shares for less than fair market value
- Granting of financial assistance contrary to the Act (normally to insiders)
- Purchase, redemption, or other acquisition of shares contrary to the Act
- Payment of certain commissions
- Payment of certain dividends (insolvency considerations)

- Payment of an indemnity contrary to the Act (dissenting shareholder and court order situations)
- Debts to employees not exceeding six months' wages
- Gains resulting from undeclared insider knowledge
- An unlawful contamination of the environment
- Appropriation for personal benefit of a corporate opportunity or contract even if the corporation was not itself able to react

98. It should be noted that a majority of the directors of a corporation at any time, and a majority forming a quorum to conduct business, must be Canadian residents.

99. Although there are no minimum reserve requirements, there are insolvency tests that must be met before financial assistance can be given to shareholders, directors, officers, or employees. These insolvency tests may also prevent direct or indirect distributions to shareholders.

Branch of a Foreign Company

100. Before carrying on business as a branch, a foreign corporation must obtain an extraprovincial license from each province in which it intends to do business. Failure to obtain the license will expose the company and its officers and directors to penalties. The following are some of the disadvantages of doing business as a branch operation:

- The foreign corporation must assume unlimited liability for the liabilities of the branch.
- In lieu of nonresident withholding taxes on distributed profits, a branch tax is imposed on profits whether distributed or reinvested.
- All books and records of the foreign corporation must be available if requested by taxation authorities.

Partnership Entities and Joint Ventures

101. A general partnership is not a separate legal entity, and as such each partner is personally, jointly, and severally liable for all debts of the partnership. Although all partners must agree to major decisions, a majority is usually sufficient for normal operations.

102. Created by filing a declaration, a limited partnership has the advantage of limited liability for named parties who do not participate in control or management of the partnership. Limited partners are liable only to the extent of their capital accounts plus undistributed profits.

103. A joint venture is an agreement between the venturers whereby the parties jointly control a specific business undertaking. It may be conducted through any of the business organizations described in this section.

Other Forms of Business Organization—Sole Proprietor

104. Any person, resident or nonresident, may engage in business in Canada as a sole proprietor if he or she has the legal capacity to enter into a contract in Canada. If they wish to do business under a name other than their own or to use the words "and Company," they must file a statement in accordance with the laws of the province in which they conduct business in the same way as most general partnerships.

CANADA–UNITED STATES FREE TRADE AGREEMENT

105. The Free Trade Agreement between Canada and the United States became effective on January 1, 1989, to reduce or eliminate most tariffs, export taxes, duty waivers, customs fees, and other trade barriers over a period of ten years. The reduction or elimination of barriers is established at different rates for different goods and services. The basic objectives of the agreement are to—

- Eliminate trade barriers between the two countries.
- Liberalize investment conditions.
- Establish procedures for resolution of disputes.
- Lay the groundwork for further bilateral cooperation.

106. A wide range of business sectors are included in the agreement, which also makes provision for easing restrictions on labor movements and investment.

INVESTMENT CANADA ACT

107. Although the present Canadian government wishes to encourage foreign investment, non-Canadian businesses come under the provisions of the Investment Canada Act, under which all newly established non-Canadian businesses must file a notification. As long as the business does not pertain to Canada's cultural heritage or national identity, no review is involved. In addition, all direct and certain indirect acquisitions of control of a business or its assets by a non-Canadian are subject to review under the Investment Canada Act if the gross assets are $5 million or more. Approval will generally be given if the transaction is seen as not detrimental to Canadians.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

108. Any company that wishes to sell its securities to the public must register under the securities legislation of the various provinces unless the trade is exempted. Some of the exemptions relate to the following:

- Isolated trades among owners
- Trades in which the aggregate acquisition cost to the purchaser does not exceed $97,000
- Transfers to liquidate certain indebtedness
- Stock dividends
- Trades of a private company when the securities are not offered to the public

Acceptance for registration is at the discretion of the Securities Commission.

109. The requirements for registration by each of the provinces are similar and stress full, true, and plain disclosure of all material facts in a prospectus relating to new issues. The required information is quite extensive, including such elements as the nature of the security, issue price, commission structure, plan of distribution, use of pro-

ceeds, description of the business, and risk factors. Financial disclosures normally include five-year comparative financial statements prepared in accordance with generally accepted accounting principles and reported on by an auditor in accordance with generally accepted auditing standards as promulgated by the CICA. Additional financial statement disclosures are required for investments held and for deferred charges of a company in the promotional, exploratory, or developmental stage. A prospectus relating to the issue of debt securities that are guaranteed must also contain the financial statements of the guarantor. The Securities Commission may also require pro forma financial statements and the financial statements of subsidiaries.

110. The securities legislation also includes regulations dealing with continuous filing of quarterly and annual financial statements, solicitation of proxies, takeover bids and insider bids, insider trading, and self-dealing.

Requirements for Listing Securities on Major Stock Exchanges

111. The Toronto Stock Exchange ("the Exchange") is the largest in Canada. Approval for listing is at the discretion of the Exchange. While there are exemptions, the normal requirements for listing include—

- 1 million outstanding publicly held shares and more than 300 public shareholders.
- A market value of the publicly held shares in excess of $1 million.
- A capable management team.
- Adequate financial resources as summarized in paragraphs 112 through 114.

112. For industrial companies, adequacy of financial resources entails the following:

a. Net tangible assets of $1 million

b. Adequate working capital and capitalization to carry on the business

c. Evidence, satisfactory to the Exchange, indicating a reasonable likelihood of future profitability

or the following:

d. Pre-tax profitability of at least $100,000 in the preceding fiscal year

e. Pre-tax cash flow of $400,000 in the preceding fiscal year

f. Adequate working capital and capitalization to carry on the business

113. For mining companies, adequate financial resources consist of the following:

a. Proven reserves to provide a mine life of at least three years

b. Adequate working capital and capitalization to carry on the business

c. Evidence, satisfactory to the Exchange, indicating a reasonable likelihood of future profitability

or the following:

d. A program of exploration, satisfactory to the Exchange, prepared by a qualified and independent technical authority

e. Sufficient funds (at least $500,000) to complete the next stage of exploration or development

f. Sufficient funds to meet estimated general, administrative, and capital expenditures for at least eighteen months

g. Adequate capitalization to carry on the business

114. For oil and gas companies, adequate financial resources are demonstrated by the following:

a. A definitive program, satisfactory to the Exchange, which can reasonably be expected to increase reserves, and sufficient funds available to execute the program

b. Adequate working capital to carry on the business (minimum of $500,000)

c. Adequate capitalization to carry on the business

d. Minimum annual pre-tax cash flow of $100,000

e. Proven reserves of $2 million (discounted at a prescribed rate)

or the following:

f. Proven developed reserves of $2 million (discounted at a prescribed rate)

g. A definitive program, satisfactory to the Exchange, which can reasonably be expected to increase reserves, and sufficient funds to execute the program

h. Sufficient funds to meet estimated general, administrative, and capital requirements for a reasonable period of time (at least the next eighteen months)

i. Adequate capitalization to carry on the business

115. The listing application includes general information such as history of the company, nature of the business, description of assets,

nature of incorporation, share transactions, and names and addresses of auditors, directors, and officers. Other documentation includes the prospectus and various certified legal and financial information. To maintain its listing, a company must make public disclosures of routine and unusual events and decisions that affect the security holders. Included among these disclosures are—

- An annual questionnaire of a routine nature.
- Quarterly and annual financial statements.
- Notification about any material change in the business.
- Notification about changes that may affect the control of the company.
- Notification about changes affecting share capital.

SELECTED ECONOMIC DATA

116. Key demographic and social factors, based on 1986 Canadian census data (unless otherwise indicated), follow.

Area (in millions of square miles)	3.8
Population—1989 estimate (in millions)	26.2
Annual population increase	.84%
Population under age 19	29%
Labor force (in millions)	13.1
Birthrate (per population of 1,000)	14.7
Median years of education	12.2
Population graduated from university or community college	17.6%

117. The major Canadian trading partners, as of 1988, are as follows:

	Exports ($ billions)	*Imports ($ billions)*
United States	84,388	73,071
Japan	6,844	6,590
European Economic Community countries, excluding United Kingdom	6,017	8,825
United Kingdom	2,887	3,862
Other	13,817	13,464
	113,953	105,812

118. Canadian primary import and export products, as of 1988, are as follows:

	Imports ($ billions)	
	1988	*1987*
Machinery and equipment	33,578	25,135
Automotive	27,587	24,887
Industrial goods	20,309	16,575
Consumer goods	12,693	9,629
Agriculture and fishing	6,274	5,617
Energy	4,297	4,495
Forestry	1,074	885
	105,812	87,223

	Exports ($ billions)	
	1988	*1987*
Automotive	29,476	24,489
Industrial goods	24,311	21,021
Machinery and equipment	19,376	14,949
Forestry	17,763	15,325
Agriculture and fishing	10,918	8,919
Energy	9,799	9,140
Consumer goods	2,310	2,008
	113,953	95,851

TAXES

119. Taxation in Canada is complex, resulting from ever-changing taxation rules and regulations. While an attempt has been made to match the determination of taxable income to income determined for accounting purposes, there are still many timing differences and special provisions. However, where taxation legislation is silent, normal accounting policies will be followed.

Principal Types

Federal Income Taxes

120. At present, the federal government levies taxes on active business income of corporations at a rate of approximately 27 percent of

taxable income and provides for a variety of tax rate reductions. A foreign corporation operating as a branch would be subject to a similar rate of tax.

121. For 1989, individuals were taxed federally as follows:

- 17 percent on the first $27,803 of taxable income
- 26 percent on taxable income between $27,804 and $55,605
- 29 percent on taxable income over $55,605

122. Significant tax deductions and credits can be obtained for qualified research and development expenditures.

Provincial Income Taxes

123. Depending on the province, the rate of income tax for corporations ranges from 5 percent to 17 percent of taxable income, whereas individuals are liable for taxes approximating 50 percent of their federal income taxes.

Provincial Capital Taxes

124. Six provinces levy a tax on capital employed by corporations in the province. Each province has different rules for calculation, but generally the rate is 0.2 percent to 0.5 percent of taxable capital.

Federal Sales Taxes/Proposed Goods-and-Services Tax

125. The federal government levies a sales tax at the manufacturing level and on the cost of goods imported. For most products the rate is 12 percent of the selling price or imported value.

126. Tax reform planned for 1991 will see the elimination of this tax. However, a new goods-and-services tax will be substituted. This tax will be paid by the end consumer and therefore is similar to the value-added taxes currently in place in many other countries. The proposed rate is 7 percent with few exemptions (for example, long-term residential rent, sales of used housing, and health and dental services).

Provincial Sales Taxes

127. All provinces (except Alberta and the Yukon and Northwest Territories) now levy a sales tax at the retail level at rates ranging from 5 percent to 12 percent.

Other Taxes

128. Other taxes common in some jurisdictions include property taxes on the value of both residential and commercial land and build-

ings, business taxes (as a factor of the property tax liability), land transfer taxes, logging taxes, and mining and mineral extraction taxes.

Tax Returns

129. Corporation tax returns in prescribed form must be filed within six months after the end of the company's fiscal year, together with copies of the financial statements. Net income per the financial statements is adjusted to taxable income by the use of a schedule.

130. Personal income tax returns are based on the calendar year and must be filed by April 30 of the following year.

APPENDIX A

CICA Auditing Recommendations*

General Auditing

5000 *Audit of financial statements—an introduction*
5020 *Association*
5100 *Generally accepted auditing standards*
5101 *International auditing guidelines*
5130 *Materiality and audit risk in conducting an audit*
5140 *Knowledge of the client's business*
5145 *Documentation*
5150 *Planning and supervision*

Internal Control

5200 *Introduction and definition*
5205 *Management's objectives and basic components of internal control*
5210 *Auditor's objective regarding internal control*
5215 *Preliminary considerations in auditor's approach*
5220 *Auditor's study and evaluation*
5300 *Audit evidence*
5305 *Audit of accounting estimates*
5310 *Audit evidence considerations when an enterprise uses a service organization*
5360 *Using the work of a specialist*
5400 *The auditor's standard report*
5405 *Date of the auditor's report*

Modifications to the Auditor's Standard Report

5510 *Reservations in the auditor's report*
5515 *Auditor's report when there is a change in generally accepted accounting principles or the application thereof*

*Numbers in the left-hand column refer to section numbers in the *CICA Handbook.*

5520 *Auditor's report on nonconsolidated financial statements prepared in accordance with paragraphs 3050.16-.18 of long-term investments*

5701 *Other reporting matters*

Special Reports

5800 *Introduction*

5805 *Reports expressing an audit opinion on financial information other than financial statements*

5810 *Reports on the results of applying specified auditing procedures to financial information other than financial statements*

5815 *Reports on compliance with contractual agreements*

5900 *Opinions on control procedures at a service organization*

Specific Items—Auditing

6020 *Accounts and notes receivable*

6030 *Inventories*

6550 *Subsequent events*

6560 *Communications with law firms regarding claims and possible claims*

6930 *Reliance on another auditor*

Specialized Areas—Auditing

7100 *The auditor's involvement with prospectuses and other offering documents*

7500 *The auditor's involvement with annual reports*

Related Services

Review Engagements

8100 *General review standards*

8200 *Reviews of financial statements*

8500 *Reviews of financial information other than financial statements*

8600 *Reviews of compliance with agreements and regulations*

8900 *Review of financial statements—accountant's comments*

Compilation Engagements

9200 *Compilation engagements*

APPENDIX B

CICA Accounting Recommendations*

General Accounting

1000 *Financial statements concepts*
1500 *General standards of financial statement presentation*
1501 *International accounting standards*
1505 *Disclosure of accounting policies*
1506 *Accounting changes*
1510 *Current assets and current liabilities*
1520 *Income statement*
1540 *Statement of changes in financial position*
1580 *Business combinations*
1600 *Consolidated financial statements and the equity method of accounting*
1650 *Foreign currency translation*
1700 *Segmented information*
1750 *Interim financial reporting to shareholders*
1800 *Unincorporated businesses*

Specific Items—Accounting

3000 *Cash*
3010 *Temporary investments*
3020 *Accounts and notes receivable*
3030 *Inventories*
3040 *Prepaid expenses*
3050 *Long-term investments*
3055 *Investments in corporate and unincorporated joint ventures*
3060 *Fixed assets*
3065 *Leases*

*Numbers in the left-hand column refer to section numbers in the *CICA Handbook.*

3070 *Deferred charges*
3080 *Intangibles*
3210 *Long-term debt*
3240 *Share capital*
3250 *Surplus*
3260 *Reserves*
3270 *Appraisal increase credits*
3280 *Contractual obligations*
3290 *Contingencies*
3400 *Revenue*
3450 *Research and development costs*
3460 *Pension costs and obligations*
3470 *Corporate income taxes*
3471 *Corporate income taxes—additional areas*
3475 *Discontinued operations*
3480 *Extraordinary items*
3500 *Earnings per share*
3600 *Prior period adjustments*
3610 *Capital transactions*
3800 *Accounting for government assistance*
3805 *Investment tax credits*
3820 *Subsequent events*
3830 *Non-monetary transactions*
3840 *Related-party transactions—disclosure considerations*
3850 *Interest capitalized—disclosure considerations*

Specialized Areas—Accounting

4000 *Prospectuses*
4210 *Life insurance enterprises—specific items*
4230 *Non-profit organizations—specific items*
4250 *Future-oriented financial information*

Supplementary Financial Information

4510 *Reporting the effects of changing prices*

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are intended for illustrative purposes. The statements presented are not intended to include all information that Canadian law requires.

To the Shareholders of Product Distributors Limited:

We have examined the balance sheet of Product Distributors Limited as at May 31, 1989, and the statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at May 31, 1989, and the results of its operation and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada	Fuller Jenks Landau
August 8, 1989	Chartered Accountants

PRODUCT DISTRIBUTORS LIMITED
BALANCE SHEET
May 31, 1989

	1989	*1988*
ASSETS		
Current		
Cash	$ 812	$ 3,251
Accounts receivable	799,794	688,156
Marketable securities (market value 1989, $62,431; 1988, $125,943)	53,251	25,463
Inventory	451,530	442,871
Prepaid expenses	6,656	10,999
	1,312,043	1,170,740
Investments (Note 2)	242,667	244,611
Fixed		
Office furniture and equipment	110,174	99,641
Leasehold improvements	24,963	30,401
	135,137	130,042
Less accumulated depreciation	71,541	85,986
	63,596	44,056
Other		
Cash surrender value of life insurance	17,775	12,950
	$1,636,081	$1,472,357
LIABILITIES		
Current		
Bank indebtedness (Note 3)	$ 160,224	$ 227,582
Accounts payable	545,518	425,532
Income taxes payable	29,060	70,316
Current portion of long-term debt	14,000	18,000
	748,802	741,430
Long-Term Debt (Note 4)	45,894	59,979
Advances From Shareholders (Note 9)	18,000	12,000
Deferred Income Taxes	65,000	38,000
	877,696	851,409

	1989	1988
SHAREHOLDERS' EQUITY		
Share Capital		
Authorized:		
30,000 preference shares, each carrying a noncumulative dividend of 9.5¢ and being redeemable at $1		
10,000 common shares		
Issued:		
10,000 common shares	10,000	10,000
Retained Earnings	748,385	610,948
	758,385	620,948
	$1,636,081	$1,472,357

APPROVED BY THE BOARD:

______________________________, Director

______________________________, Director

PRODUCT DISTRIBUTORS LIMITED
STATEMENT OF RETAINED EARNINGS
For the year ended May 31, 1989

	1989	*1988*
Retained Earnings, beginning of year		
As previously reported	$ 562,491	$ 374,077
Prior period adjustment (Note 5)	48,457	15,500
As restated	610,948	389,577
Net Income	191,793	386,256
	802,741	775,833
Dividends	(58,247)	(209,327)
Refundable Taxes (Note 6)		
Paid	(10,671)	(7,890)
Recovered	14,562	52,332
Retained Earnings, end of year	$ 748,385	$ 610,948

PRODUCT DISTRIBUTORS LIMITED
STATEMENT OF INCOME
For the year ended May 31, 1989

	1989	*1988*
Sales	$3,083,386	$2,983,445
Cost of Sales		
Inventory, beginning of year	442,871	381,038
Purchases	1,708,711	1,786,458
	2,151,582	2,167,496
Inventory, end of year	451,530	442,871
	1,700,052	1,724,625
Gross Profit	1,383,334	1,258,820
Expenses (See schedule)		
Selling	407,698	318,537
Administrative	647,691	624,284
	1,055,389	942,821
Income From Operations	327,945	315,999
Other Income		
Interest	31,151	23,272
Dividends	11,532	8,294
	42,683	31,566
Income Before Income Taxes and Extraordinary Item	370,628	347,565
Income Taxes	178,835	150,790
Income Before Extraordinary Item	191,793	196,775
Gain on Expropriation of Land and Buildings, Net of Income Taxes of $70,209	—	189,481
Net Income	$ 191,793	$ 386,256

PRODUCT DISTRIBUTORS LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended May 31, 1989

	1989	*1988*
Cash Was Provided by (Used for):		
Operating activities:		
Cash from operations		
Income before extraordinary item	$ 191,793	$ 196,775
Items not affecting cash:		
Depreciation and amortization	15,957	20,486
Deferred income taxes	27,000	16,000
Change in working capital items related to operations other than cash	(37,224)	22,640
	197,526	255,901
Financing activities:		
Long-term debt incurred	–	63,000
Reduction in long-term debt	(18,085)	(29,746)
Long-term investments	1,944	(57,522)
Shareholder advances	6,000	–
	(10,141)	(24,268)
Investing activities:		
Gain on expropriation of land and buildings, net of income taxes of $70,209	–	189,481
Additions to fixed assets	(35,497)	(20,271)
Cash surrender value of life insurance	(4,825)	(663)
	(40,322)	168,547
Dividends:		
Dividends paid	(58,247)	(209,327)
Refundable taxes recovered, net	3,891	44,442
	(54,356)	(164,885)
Change in Cash Position	92,707	235,295
Cash Position, Beginning of Year	(198,868)	(434,163)
Cash Position, End of Year	$ (106,161)	$ (198,868)
Cash Position Comprised:		
Cash	$ 812	$ 3,251
Marketable securities	53,251	25,463
Current bank indebtedness	(160,224)	(227,582)
	$ (106,161)	$ (198,868)

PRODUCT DISTRIBUTORS LIMITED
SCHEDULE OF EXPENSES
For the year ended May 31, 1989

	1989	*1988*
Selling		
Salesmen's salaries and commissions	$ 172,109	$ 133,921
Shipping salaries	24,155	29,796
Advertising	69,460	45,218
Car rental and expenses	69,392	55,827
Sales promotion and travel	66,246	46,315
Shipping expense	6,336	7,460
	$ 407,698	$ 318,537
Administrative		
Administrative and office salaries	$ 329,770	$ 289,132
Employees' benefits	38,086	28,681
Director's fees	2,250	1,125
Bad debts	40,395	101,990
Director's life insurance	2,277	1,891
Discounts allowed	10,118	11,004
Insurance	10,082	8,916
Interest		
Long-term debt	34,404	34,066
Other	8,361	7,321
Licenses, taxes, and fees	4,730	5,394
Office supplies and expenses	30,732	26,138
Postage	13,811	13,640
Professional fees	36,440	21,916
Rent	28,004	18,504
Telephone	35,966	29,918
Utilities	6,308	4,162
Depreciation of office equipment	10,918	11,014
Amortization of leasehold improvements	5,039	9,472
	$ 647,691	$ 624,284

PRODUCT DISTRIBUTORS LIMITED
NOTES TO FINANCIAL STATEMENTS
May 31, 1989

1. Accounting Policies

Principles of Consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary.

Marketable Securities

Marketable securities are valued at the lower of cost and quoted market value.

Inventory

Inventory is valued at the lower of cost—determined on the first-in, first-out basis—and net realizable value.

Fixed Assets

Fixed assets are recorded at cost.

Depreciation of office furniture and equipment is provided on declining balances at 20 percent per annum.

Leasehold improvements are amortized on the straight-line basis over the remaining term of the related lease.

Income Taxes

For income tax purposes, the company has claimed certain expenses in excess of amounts charged in the financial statements. The resulting tax postponement, reported as deferred income taxes, will be payable in future years when expenses claimed for tax purposes are less than the related amounts charged in the financial statements.

2. Investments, at Cost

	1989	*1988*
10-percent mortgage, due June 1994	$ 202,667	$ 202,667
Other investments, without quoted market value	40,000	41,944
	$ 242,667	$ 244,611

3. Bank Indebtedness

	1989	1988
Overdraft	$ 13,724	$ 1,582
Demand loan	146,500	226,000
	$ 160,224	$ 227,582

Bank indebtedness is secured by a general assignment of book debts, a chattel mortgage on certain equipment, a guarantee of a managing director, and an assignment of fire insurance policies.

4. Long-Term Debt

	1989	1988
Bank loan at prime plus 1.5 percent, secured as described in Note 3. The loan, although due on demand, is payable in monthly installments of principal and interest of $1,079.	$ 21,473	$ 34,417
10-percent first mortgage on land, payable in monthly installments of principal and interest of $553, due June 1993.	38,421	43,562
	59,894	77,979
Less principal payments due within one year	14,000	18,000
	$ 45,894	$ 59,979

Principal payment requirements, assuming a bank prime lending rate of 11 percent per annum, are as follows:

1990	$14,000
1991	13,500
1992	12,200
1993	14,250
1994	4,200
Subsequent years	1,744
	$59,894

5. Prior Period Adjustment

During 1989, claims by a supplier relating to the years 1986 to 1988 were settled in favor of the company. Accordingly, provisions made in prior years were no longer required.

A provision of $65,914, less related income taxes of $32,957, has been credited to income in 1988 and the previously reported balances restated. The remaining $32,292, less related income taxes of $16,792, is applicable to years prior to May 31, 1988, and has been credited to retained earnings at that date.

6. Refundable Taxes

Taxes in the amount of approximately $93,500 are refundable to the company on the basis of $1 for every $4 of taxable dividends paid to shareholders. Should the company cease to be classified as a private corporation for income tax purposes, this refund entitlement would be lost.

7. Commitments

The company is committed with respect to leased premises to September 1992 at an annual rental of $52,650 plus realty taxes and common expenses, and to March 1991 at an annual rental of $7,380 plus realty taxes and common expenses.

The company is also committed with respect to leased vehicles to various dates expiring up to May 1993 at annual rentals of approximately $73,500.

8. Contingent Liability

The company is contingently liable as guarantor of bank advances to its shareholder affiliate to a maximum of $200,000. Bank advances to the shareholder at May 31, 1989, were $130,000.

9. Related-Party Information

For reporting purposes herein, related parties are defined as—

a. A U.S. shareholder affiliate, The Product Company, owning 50 percent of the company's issued shares.

b. A company, Product Publications Inc., controlled by a managing director.

c. The managing directors.

Balances with related parties at statement date are as follows:

	1989	*1988*
Accounts receivable		
Shareholder affiliate	$ 297,659	$ 278,969
Company controlled by management	17,748	—
	$ 315,407	$ 278,969
Accounts payable		
Shareholder affiliate	$ 24,935	$ 19,684
Company controlled by management	—	1,474
	$ 24,935	$ 21,158
Advances from:		
Shareholder affiliate	$ 3,000	$ 3,000
A managing director (who is also a shareholder)	15,000	9,000
	$ 18,000	$ 12,000

Advances from shareholders are unsecured, bear interest at prime plus 1.5 percent, and have no specific terms of repayment.

The following transactions were entered into with related parties:

	1989	*1988*
Sales of product to:		
Company controlled by management	$ 105,241	$ 98,181
Shareholder affiliate	18,064	101,260
	$ 123,305	$ 199,441
Purchases of product from:		
Company controlled by management	$ 573	$ 615
Shareholder affiliate	3,496	6,631
	$ 4,069	$ 7,246
Purchases of services from:		
Company controlled by management	$ 4,950	$ –
Interest on advances paid to:		
Shareholder affiliate	$ 750	$ 300
Managing director (who is also a shareholder)	1,800	800
	$ 2,550	$ 1,100

In addition, certain managerial and administrative services are provided to the company controlled by management without charge.

10. Comparative Figures

Certain of the 1988 figures presented for comparative purposes have been restated as described in Note 5, and others have been reclassified to conform with the basis of presentation followed in 1989.

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in Canada

General Information	Answer	Comments
1. Is a primary purpose of an audit:		1*a–c*. The primary purpose of an audit is to report to shareholders on the fairness of the financial statement.
a. to attest to information used by investors, creditors, etc.?	Yes	
b. to satisfy statutory requirements (for example, the Companies Act)?	No	
c. for tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field-work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in Canada?	Yes	2A-C. The wording for generally accepted auditing standards in Canada is very similar to that in the United States. Auditing standards and recommendations are codified in the *CICA Handbook.*
B. If so, are they published?	Yes	
C. If auditing standards exist in Canada, are they similar to U.S. standards?	Yes	

D. If not, what are they?

3.	Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The Auditing Standards Committee of the CICA.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. CICA 6020.18	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. CICA 6030.09(b)	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. CICA 6560.19	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. CICA 6560.07	✓			

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.
CICA numbers refer to paragraphs in the *Canadian Institute of Chartered Accountants Handbook.*
ICAO = Institute of Chartered Accountants of Ontario.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. CICA 5145.06 (ICAO Rule of Professional Conduct No. 218)	✓			8A,B. The recommendation is that the auditor document matters that are important to support the report. Many provincial institutes have stricter documentation requirements.
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. CICA 5300.01 and 5145.06	✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. CICA 5220.23	✓			
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. CICA Guideline	✓			
B. If so, is the communication documented? (AU 325)	Yes. CICA Guideline	✓			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	No	✓			
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. CICA 5300.44	✓			

13. A. Does the auditor perform procedures to identify related-party transactions and their effect on the financial statements? (AU 334)	Yes. CICA Guideline	✓		
B. If so, list the procedures.				13B. Canadian procedures are essentially the same as those of the United States.
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. CICA 6030.09(a)	✓		
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. CICA 5300.41 and 6550.06	✓		
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. CICA 6550.06	✓		
16. The concept of "joint auditors" in certain countries (e.g., U.K. and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in Canada?	No		✓	16. The practice is unusual and often follows a legislated requirement for specialized industries such as banks.
17. When a principal auditor is reporting on financial statements that include				

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. CICA 6930.22	✓			
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No. CICA 6930.20			✓	17B. If the principal auditor is unable either to obtain sufficient evidence to rely on the other auditor or to perform other procedures, there should be a reservation of opinion.
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. CICA 5400.21	✓			18A. See paragraph 30 of text.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)					18B. See paragraph 31 of text.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	Yes. CICA 5515.05	✓			19A. Reference is made in the opinion to the change and to the footnote that discusses the change and its effect.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?					
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	No	✓			

B. If not, what date is used?	See Comment	✓	20B. Date of substantial completion of the examination (CICA 5405.06).
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client (Code of Professional Conduct, Rule 101 and its interpretations).	Yes. ICAO Rule of Professional Conduct No. 204 and incorporating legislation		21. All provincial institutes have similar rules.
22. Please describe any standards in Canada for which there are no corresponding U.S. standards.			22. None

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in Canada

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Canada? If so, are they codified?	Yes	1. Generally accepted accounting principles in Canada are codified in the *CICA Handbook.*
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)	The Accounting Standards Committee of the CICA.	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	No	✓			3. See paragraphs 45 through 47 of text.
4. Are interest costs, incurred while activities that are necessary to get	No				4. See paragraph 48 of text.

an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)				
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40) B. If so, define the basis.	No		✓	5A. See paragraphs 45 through 46 of text.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determined within reasonable limits? (N35)	Yes. CICA 3830.05	✓		
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. CICA 3400.07	✓		
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. CICA 1000.41	✓		
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. CICA 3050.06	✓		9A,B. See paragraph 49 of text.

Notes:

References in the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes. CICA 3050.03	✓			
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. CICA 3050.08, .10, .12, and .14	✓			10A,B. See paragraph 49 of text.
B. If so, list them.					
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. CICA 3050.21	✓			11. See paragraphs 49 through 50 of text.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Yes. CICA 1580	✓			12. See paragraphs 51 through 52 of text.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. CICA 1580.79 and .81	✓			
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50)	Yes. CICA 1580.21	✓			
B. If so, list the criteria.					14B. See paragraph 51 of text.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. CICA 1580.61	✓			

B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. CICA 1580.58	✓	15B. The amortization period is not to exceed forty years.
16. Are the following disclosures made for related-party transactions: (R36)			
a. the nature of the relationship?	Yes. CICA 3840.13	✓	
b. a description of the transactions for the periods presented?	Yes. CICA 3840.13	✓	
c. the amounts of the transactions for the periods presented?	No	✓	16*c*. Required disclosures include the "extent" of transactions, which normally results in disclosure of amounts.
d. the amounts due to or from related parties at the balance sheet date?	Yes. CICA 3840.13	✓	
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. CICA 3290.12	✓	
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. CICA 3290.15	✓	
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the U.S., guarantees are usually disclosed as loss	No	✓	19. Disclosure of a significant but unlikely contingent loss is not required but is desirable.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
contingencies even if the possibility of loss is remote.] (C59)					
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)					
a. sales to outsiders and intersegment sales?	Yes. CICA 1700.33	✓			20*a-f.* Segment disclosure is not required if securities are not traded publicly and financial statements are not filed with a securities commission.
b. operating profit or loss?	Yes. CICA 1700.33	✓			
c. identifiable assets and related depreciation, depletion, and amortization expense?	Yes. CICA 1700.33	✓			
d. capital expenditures?	Yes. CICA 1700.33	✓			
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓		20*e.* Not required but may be desirable.
f. effect of a change in accounting principle?	No		✓		
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	Yes. CICA 4510		✓		21A,B. See paragraphs 53 through 54 of text.
B. If so, list the disclosures required.					
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes: re segregation. CICA 1510.01	✓			22. A total is desirable but not required.
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. CICA 1510.01	✓			

B. If not, how are noncurrent assets defined?				
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. CICA 3020.10	✓		
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?				24B. Normally, specific identification, but when that is impractical, other methods may be used.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No		✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	No	✓		
B. If not, how is inventory stated?				26B. The lower of cost and net realizable value is the predominant practice.
C. Is the basis disclosed?	Yes. CICA 3030.10	✓		
27. Does cost for inventory purposes include: (I78)				
a. materials?	Yes. CICA 3030.06	✓		
b. direct labor?	Yes. CICA 3030.06	✓		
c. factory overhead?	Yes. CICA 3030.06	✓		
d. if the answer to *c* is yes, is an allocable share of all factory overhead included?	No	✓		27*d.* Includes overhead "normally charged to production." Exclusions may arise from abnormal circumstances (for example, idle facilities) or fluctuating volume of production.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
28. A. Are the following cost methods permitted for reporting purposes: (I78)					28A. All three methods are permitted. The method used should result in the fairest matching of costs and revenues.
a. first-in, first-out (FIFO)?	Yes. CICA 3030.07-09	✓			
b. last-in, first-out (LIFO)?	Yes. CICA 3030.07-09		✓		
c. average cost?	Yes. CICA 3030.07-09		✓		
B. Are the same methods permitted for tax purposes?	See Comment				28B. Yes, except LIFO, which must be determined to be fair in the circumstances.
29. Is the inventory costing method used disclosed? (I78)	Yes. CICA 3030.13	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. Securities legislation	✓			30A. Required for public companies.
B. If so, is an accumulated depreciation account used?	Yes. CICA 3060.03	✓			
31. Are disclosures made of: (D40)					
a. depreciation expense for the period?	Yes. CICA 3060.05	✓			
b. balances of major classes of depreciable assets?	No	✓			31*b.* Disclosure is desirable.
c. the methods used to compute depreciation for the major asset classes?	Yes. CICA 1505.09	✓			
d. accumulated depreciation, either by major class of assets or in total?	Yes, in total. CICA 3060.03	✓			31*d.* Disclosure by major class is desirable.
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. CICA 3065.10	✓			

B. If so, list the criteria and disclosure requirements.				32B. See paragraphs 55 through 60 of text.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. CICA 3065.09	✓		
B. If so, list the criteria, type of lease, and disclosure requirements.				33B. See paragraphs 55 through 60 of text.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes: re segregation. CICA 1510.07	✓		34. A total is desirable but not required.
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No	✓		
B. If not, how are noncurrent liabilities defined?				35B. See paragraphs 61 through 62 of text.
36. For notes payable, is disclosure made of: (C32)				
a. interest rates?	Yes. CICA 3210.01	✓		
b. maturities?	Yes. CICA 3210.01	✓		
c. assets pledged as collateral?	Yes. CICA 1500.12	✓		
d. covenants to reduce debt?	Yes. CICA 3210.01	✓		
e. minimum working capital requirements?	No		✓	
f. dividend restrictions?	No		✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. CICA 3400.08	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, what are the criteria for determining the method to be used?					37B. Whichever method best relates the revenue to the work accomplished in a given situation.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. CICA 3450.16	✓			
B. Are such costs disclosed?	Yes. CICA 1520.03	✓			
39. A. Are development costs charged to expense when incurred? (R50)	Yes. CICA 3450.19	✓			39A. See paragraphs 63 through 66 of text.
B. Are such costs disclosed?	Yes. CICA 1520.03	✓			
40. A. In the U.S., events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Canada? (I17)	Yes. CICA 3480.02	✓			40A. Canadian requirements are more restrictive. See paragraphs 67 through 68 of text.
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. CICA 1520.03	✓			
42. A. Are disclosures required for:					
a. extraordinary items? (I17)	Yes. CICA 3480	✓			

b. material events or transactions not classified as extraordinary items? (I22)	Yes. CICA 1520.03	✓	
c. disposal of a segment of a business? (I13)	Yes. CICA 3475	✓	
B. Indicate the financial statement presentation of these items.	See Comment		42B. Included in income or loss before discontinued operations and extraordinary items is separate disclosure of revenues, expenses, gains, or losses resulting from transactions or events that occur infrequently over several years or that do not typify normal business activities, followed by— • results of discontinued operations. • income or loss before extraordinary items. • net income or loss for the period.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	Yes. CICA 3460.07	✓	43A,B. See paragraphs 69 through 70 of text.
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	Yes. CICA 3460.77	✓	
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. CICA 3460	✓	
B. If so, list them.			44B. See paragraph 70 of text.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. CICA 3470.13	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	No	✓			45B. See paragraphs 71 through 72 of text.
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	No. CICA 3470.20			✓	46A,B. Canadian requirements parallel those found in Accounting Principle Board (APB) Opinion No. 11, *Accounting for Income Taxes*, issued in the United States.
B. If not, on what basis?					
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. CICA 3470	✓			47A,B. See paragraph 72 of text.
B. If so, list the requirements.					
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25)	Yes	✓			
B. If so, are the tax effects of a loss carryback included in the income in the period?	Yes. CICA 3470.40	✓			
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes	✓			
B. If so, are the tax effects of a loss carryforward included in income in the period realized?					49B. See paragraph 71 of text.
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency	Yes. CICA 1650	✓			50. See paragraph 73 of text.

of the primary economic environment in which the entity operates? (F60)				
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. CICA 1650	✓		51. See paragraph 73 of text.
52. A. Are translation adjustments reported separately? (F60)	Yes. CICA 1650	✓		52A,B,C. See paragraph 73 of text.
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. CICA 1650	✓		
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Yes. CICA 1650	✓		
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	No. CICA 1650		✓	53A,B. See paragraph 73 of text.
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No. CICA 1650		✓	
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. CICA 1650	✓		54. Sec paragraph 73 of text.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
55. What information is disclosed about foreign currency restrictions? (F60)	See Comment				55. Cash subject to restrictions that prevent its use for current purposes should be excluded from current assets (CICA 1600.01). Any information required for fair presentation should be disclosed (CICA 1500.05).
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. CICA 3820.06 and .10	✓			
57. Please list any standards for Canada for which there are no corresponding U.S. standards.					57. None

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