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Accounting Profession in Canada; Professional Accounting in Foreign Country Series

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The Accounting Profession in Canada

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA

American Institute of Certified Public Accountants

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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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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of November 1986. Changes after this date in the standards of either the United States or Canada may alter the comparisons 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
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Contents

1 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).

2. The practice of public accountancy in Canada is licensed 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.

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 recognition by securities administrators and in federal and provincial legislation as constituting the formal principles and standards for financial reporting and public accounting in Canada.

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

7. In addition to the pronouncements contained in the *Handbook,* guidelines addressing new accounting and auditing issues that require immediate attention by the members are issued from time to time. 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 issue of pronouncements.

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

Ethics Requirements

9. 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

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

a. Complete university credit courses approved by the Institute.
b. Earn a university degree.
c. Obtain employment with a public accounting firm approved to train students.
d. Attend and pass the courses in a school of public accountancy run by the provincial Institute.
e. Pass a series of national examinations.
f. Serve a minimum term with an approved public accounting firm.

Rights of Membership

11. 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 Chartered Accountant), ACA (Associate Chartered Accountant), or CA after his name.

Number of Members

12. There are approximately 38,000 Chartered Accountants in Canada; of these, approximately one half are engaged in public accounting.

CPE Requirements

13. All CAs are expected and encouraged to keep up to date 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.

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

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Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

15. In Canada, a company may be incorporated under either federal or provincial legislation. Fortunately, each of the provincial legislations parallels legislation of the federal government.

16. The purpose of the statutory audit is not formally defined in the law. However, the *CICA Handbook* (sec. 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 That Are Required to Be Audited

17. 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 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

18. 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.

19. Shareholders may remove the auditor before the end of his 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.

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

21. An auditor must be independent, must be licenced by the province in which he practices, and must comply with the rules of ethics of the organization to which he belongs.

Auditing and Reporting Responsibilities

22. *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 state-

ments does not relieve management of its responsibilities. The auditor may make suggestions as to the form or content of the financial statements or he 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 his examination and the preparation of his report.

In performing his examination, the auditor seeks reasonable assurance that the financial statements taken as a whole are not materially misstated. The auditor normally designs his 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.

23. The auditor has a statute-protected right of access to all books, records, information, and explanations that he 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

24. 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 not fewer than five directors of the company, a majority of which 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

25. 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

26. 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

27. 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, enquiry, confirmation, computation, and analysis, to afford a reasonable basis to support the content of the report.

Standards of Reporting

28. 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. Where 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 appropriate 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 such 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. Where the basis or its application is not consistent, the report should provide adequate explanation of the nature and effect of the inconsistency.

29. 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*] ____________________
[*Date*] ____________________ Chartered Accountant

30. 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 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.
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 should 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 would deny an opinion.

31. *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 should express his 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.

32. 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."

33. *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 auditors to qualify their report under certain conditions relating to the materiality and likelihood of occurrence.

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

35. As in the United States, disclosure of the effects of inflation are 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.

36. 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.

37. The Canadian auditor's opinion extends to the comparative figures only if specifically stated in his report, and this is rarely done. Auditors are cautioned 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.

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Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

38. 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*.

39. 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. Usually a practitioner would look to CICA guidelines, research studies, published financial statements of the industry involved, authoritative Canadian literature, and literature of other countries that normally would emphasize U.S. pronouncements.

FORM AND CONTENT OF FINANCIAL STATEMENTS

40. There are no significant differences in the form and content of financial statements between Canada and the United States other than those that result from differences in GAAP, as described in paragraphs 42 through 91 and in appendix E. Illustrative Canadian financial statements are presented in appendix C.

41. 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.

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

42. 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.

43. 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

44. Although it is rare to write up a fixed asset above historical cost, it is permitted by *CICA Handbook* section 3060.04. 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.

Interest Costs During Construction of an Asset

45. There are no policy statements permitting or prohibiting the capitalization of interest costs in Canada, although in the real estate industry it is generally acceptable to capitalize interest and other carrying costs on properties held for, and under, development. Generally, 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.

Consolidated Financial Statements

46. In Canada, consolidation is required by a company that owns, directly or indirectly, a majority of shares carrying the right to elect at least a majority of the members of the board of directors. Exceptions to the rule follow.

- 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 and the carrying value resulting from the use of the equity method.)
- The subsidiary is a bank or an insurance company and its financial statements are not 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 the more informative presentation. (Use the equity method and include separate financial statements.)

Application of the Equity Method

47. 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

48. 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 rarely used. Costs relating to the combination are treated as a capital transaction.

49. 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. If not recorded, realization is treated as an extraordinary item.
c. Contingent assets are not recorded.
d. Negative goodwill is usually eliminated by the reduction of nonmonetary assets on a judgmental basis.

Inflation Accounting

50. Supplementary disclosures are required when either inventory plus property, plant, and equipment before deducting accumulated depreciation exceed $50 million or total assets after accumulated depreciation exceed $350 million. As supplementary information, the lack of disclosure 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.

51. The 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 extraordinary items, after reflecting the above items
- The amount of changes 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 changes during the reporting period in the current cost amounts of inventory and property, plant, and equipment
- 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

52. 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.

53. 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.

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

55. 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.

56. For a lessee under a capital lease, the following hold:

- 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.

57. 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

58. 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

59. 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

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

61. Development costs should be deferred to the extent that their recovery can be reasonably regarded as 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.

62. 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.

63. 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.

Pension Costs

64. U.S. standards and guidance provided by Accounting Principles Board (APB) opinion No. 8 and Financial Accounting Standards Board (FASB) Statement Nos. 35, 36, and 74 are much more extensive than those provided by *CICA Handbook* section 3460.

65. Notable differences in existing principles follow. In Canada—

- The annual provision for pension costs is calculated on an actuarial basis that will provide for the accrual of costs over the working lives of the employees. The basis should be consistent and the underlying assumptions on which the calculations are based should be realistic. There are no minimum or maximum requirements.
- Past service costs from the introduction or modification of a plan are amortized over a reasonable period of years.
- Actuarial gains or losses are recognized immediately or spread over the period to the next expected revaluation.

66. The following disclosures are required for pension costs by Canadian GAAP:

a. Where an adjustment brought about by an actuarial revaluation is material in the period or periods in which it is charged against operations, it should be shown separately.

b. The accrual for pension costs should be included in the liabilities in the balance sheet.

c. Where past service costs have been paid or reflected in the accounts in excess of the amounts charged to operations, the unabsorbed debit should be shown as a deferred charge.

d. The amount of past service costs remaining to be charged to operations, and the rate at which such costs are being absorbed, should be shown in a note to the financial statements.

e. The effect of any new plan, of any significant changes in an existing plan, or of any changes in the method of accounting for the costs of that existing plan should be disclosed in a note to the financial statements.

67. Major revisions to pension reporting practice, as contained in FASB Statement Nos. 87 and 88 and *CICA Handbook* section 3480 (revised), become effective in the United States and in Canada for public companies with more than one hundred participants for fiscal years beginning in December 1986, and for fiscal years beginning in December 1988 for other companies. Comparison of these principles will be made in future updates.

Accounting for Income Taxes

68. In Canada, accounting for income taxes 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.

69. 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 of "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, the securities of which 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 extraordinary items should be shown separately in the income statement with the extraordinary items, not as part of the provision for income taxes included in "income before 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.
- Where 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 and shown in the income statement as an extraordinary item.
- Where a tax benefit resulting from a loss carryforward was not recorded in the period in which the loss occurred, it should be shown as an extraordinary item 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

70. 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 used as 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, triggers a transfer to income of a proportionate share of the cumulative translation adjustment account.

Depreciation

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

Accounting Changes

72. 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 is

not reasonably determinable. Financial statements presented for comparative purposes normally should be restated.

73. An exception to these recommendations that conflicts with U.S. policies is that changes to or from the consolidation method or the equity method are applied prospectively.

74. Canadian GAAP differ from U.S. GAAP in that, in the United States, the cumulative effect of an accounting change is normally included in current income. Retroactive treatment with restatement is required for changes in specific circumstances.

Compensated Absences

75. There are no Canadian requirements for 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

76. Significant differences in earnings per share between Canada and the United States follow.

- 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

77. The only method of accounting for investment tax credits 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

78. 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.

79. 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

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

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

81. 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

82. 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

83. 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.

Involuntary Conversion of Nonmonetary Assets to Monetary Assets

84. There is no Canadian requirement to recognize gains or losses on the involuntary conversion of nonmonetary assets to monetary assets as there is in the United States. If the asset is

replaced, the gain or loss may be applied to the cost of the replacement asset.

Statement of Changes in Financial Position

85. For fiscal years beginning after October 1, 1985, the statement of changes in financial position is to reflect the source and application of cash and cash equivalents that will normally be classified by operating, financing, and investing activities. Although the components of cash and cash equivalents are to be disclosed, disclosure of net changes in each component of working capital is not required.

Future Contracts (Other Than Foreign Exchange)

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

Troubled Debt Restructuring

87. In Canada, there are no pronouncements on this subject.

Product Financing Arrangements

88. There is no Canadian requirement to account for these as borrowing transactions as there is in the United States.

Sales With Right of Return

89. In the United States, revenue from these transactions is recognized only if all of a number of conditions are met. There are no Canadian requirements in this regard, although the topic of revenue is under review.

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 disclosure of the aggregate liquidation preference of its outstanding preferred stock and the capitalization of retained earnings equal to the fair market value of stock dividends. There are no similar requirements in Canada.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

92. A company may incorporate under federal (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.

93. 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 investment.

94. 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. Specific situations that may impose a personal liability on a director follow.

- 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

95. 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. This could lead to a loss of control unless a unanimous shareholders' agreement is used to transfer operating control to the shareholders.

96. 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

97. Before carrying on business as a branch, a foreign corporation must obtain an extra-provincial license. Failure to obtain the license will expose the company and its officers and directors to penalties. Some of the disadvantages of doing business as a branch operation follow.

- 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

General Partnership

98. 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.

Limited Partnership

99. 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. Limited partners are liable only to the extent of their capital accounts plus undistributed profits.

Joint Venture

100. 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

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

INVESTMENT CANADA ACT

102. 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 Act if the gross assets are $5 million or more. Generally, approval will 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

103. 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.

104. The requirements for registration by each of the provinces is similar and stresses 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 proceeds, 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.

105. The securities legislation also includes regulations dealing with continuous filing of quarterly and annual financial state-

ments, solicitation of proxies, take-over bids and insider bids, insider trading, and self-dealing.

Requirements for Listing Securities on Major Stock Exchanges

106. The Toronto Stock Exchange ("the Exchange") is the largest in Canada. Approval for listing is at the discretion of the Exchange. The minimum requirements for listing include—

- 200,000 outstanding publicly held shares and more than 200 public shareholders.
- A market value of the publicly held shares in excess of $350,000.
- A capable management team.
- Adequate financial resources as summarized in paragraphs 107 through 109.

107. 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 in the preceding fiscal year
e. Pre-tax cash flow of $200,000 in the preceding fiscal year ($150,000 average for two fiscal years)
f. Adequate working capital and capitalization to carry on the business

108. 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 technical authority *e.* Adequate working capital or cash generating capacity to carry on the business (minimum of $500,000)

f. Adequate capitalization to carry on the business

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

a. A program of exploration, development, or both satisfactory to the Exchange

b. Adequate working capital or cash generating capacity to carry on the business (minimum of $200,000)

c. Adequate capitalization to carry on the business

d. Minimum annual pre-tax cash flow of $35,000

e. Proven and probable reserves of $1 million

or the following:

f. Proven developed reserves of $1 million

g. Adequate financing capability

or the following:

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

i. Adequate working capital or cash generating capacity to carry on the business (minimum of $500,000)

j. Adequate capitalization to carry on the business

110. 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.

TAXES

Principal Types

Federal Income Taxes

111. Presently, the federal government levies taxes on corporations at a flat rate of 46 percent of taxable income plus a 5 percent temporary surtax and provides for a variety of tax rate reductions. A foreign corporation operating as a branch would also be subject to a branch tax.

112. Generally, a foreign-controlled business earning taxable income in one or more provinces would be eligible for a 10 percent federal tax abatement and 6 percent of any defined manufacturing and processing profits.

113. Individuals are taxed at rates ranging from 6 percent on the first $1,295 of taxable income to a maximum of 34 percent on taxable income exceeding $62,160.

114. In addition, there are a number of tax credits available. The more significant credits follow.

- An investment tax credit of 7 percent to 50 percent of the acquisition cost of qualified depreciable property to be used in specific industries and for general manufacturing and processing. The credit may also apply to certain types of transportation equipment and research and development expenditures.
- An accelerated rate of depreciation for tax purposes of certain classes of equipment. For example, most manufacturing and processing equipment can be written off over three years.
- A 100-percent write-off for tax purposes of current and capital expenditures on research and development.

115. Individuals also benefit from a large number of allowable income deductions and tax credits.

Provincial Income Taxes

116. Depending on the province, the rate of income tax for corporations ranges from 6 percent to 16 percent of taxable income, whereas individuals are liable for taxes approximating 50 percent of their federal income taxes.

Provincial Capital Taxes

117. 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 0.45 percent of taxable capital.

Federal Sales Taxes

118. The federal government levies a sales tax at the manufacturing level. For most products the rate is 12 percent of the selling price by the manufacturer.

Provincial Sales Taxes

119. All provinces now levy a sales tax at the retail level at rates ranging from 5 percent to 12 percent.

Tax Returns

120. 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 way of a schedule.

121. 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*

Introduction to Auditing Recommendations

General Auditing

5000 *Audit of financial statements—an introduction*
5100 *Generally accepted auditing standards*
5101 *International auditing guidelines*
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*
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*
5520 *Auditor's report on nonconsolidated financial statements prepared in accordance with paragraphs 3050.16-.18 of long-term investments*
5701 *Other reporting matters*

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

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*

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

8000 *Table of contents*

8100 *Unaudited financial statements*

8200 *The auditor's involvement with unaudited interim information*

APPENDIX B

CICA Accounting Recommendations*

Introduction to Accounting Recommendations

General Accounting

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*

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

3055 *Investments in corporate and unincorporated joint ventures*
3060 *Fixed assets*
3065 *Leases*
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 *Sales*
3450 *Research and development costs*
3460 *Pension costs and obligations*
3470 *Corporate income taxes*
3471 *Corporate income taxes—additional areas*
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*
3840 *Related party transactions—disclosure considerations*

Specialized Areas—Accounting

4000 *Prospectuses*

Supplementary Financial Information

4510 *Reporting the effects of changing prices*

APPENDIX C

Illustrative Financial Statements

PRODUCT DISTRIBUTORS LIMITED
BALANCE SHEET
May 31, 1986

	1986	1985
ASSETS		
Current		
Cash	$ 812	$ 3,251
Accounts receivable	799,794	688,156
Marketable securities (market value 1986, $62,431; 1985, $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

(Continued on next page.)

PRODUCT DISTRIBUTORS LIMITED
BALANCE SHEET *(cont.)*

	1986	1985
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 (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
SHAREHOLDERS' EQUITY		
Share Capital		
Authorized:		
30,000 preference shares, each carrying a noncumulative dividend of 9.5¢ and being redeemable at $1, aggregate consideration not to exceed $30,000		
10,000 common shares, aggregate consideration not to exceed $10,000		
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, 1986

	1986	1985
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, 1986

	1986	1985
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 Items	370,628	347,565
Income Taxes	178,835	150,790
Income Before Extraordinary Items	191,793	196,775
Extraordinary Items		
Gain on sale of land and buildings, net of income taxes of $70,209	—	163,276
Income tax reduction upon application of prior years' losses	—	26,205
	—	189,481
Net Income	$ 191,793	$ 386,256

PRODUCT DISTRIBUTORS LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended May 31, 1986

	1986	1985
Cash and Equivalents Were Provided by (Used for):		
Operating activities		
Cash from operations		
Income before extraordinary items	$ 191,793	$ 196,775
Items not affecting cash		
Depreciation and amortization	15,957	20,486
Deferred income taxes	27,000	16,000
Net change in noncash working capital items related to operations	(37,224)	22,640
	197,526	255,901
Income tax reduction upon application of prior years' losses	—	26,205
Dividends paid	(58,247)	(209,327)
Refundable taxes recovered, net	3,891	44,442
	143,170	117,221
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 sale of land and buildings, net of income taxes of $70,209	—	163,276
Additions to fixed assets	(35,497)	(20,271)
Cash surrender value of life insurance	(4,825)	(663)
	(40,322)	142,342
Increase in Cash and Equivalents	92,707	235,295
Cash and Equivalents, beginning of year	(198,868)	(434,163)
Cash and Equivalents, end of year	$(106,161)	$(198,868)
Cash and Equivalents Comprised:		
Cash	$ 812	$ 3,251
Marketable securities	53,251	25,463
Bank indebtedness	(160,224)	(227,582)
	$(106,161)	$(198,868)

PRODUCT DISTRIBUTORS LIMITED
SCHEDULE OF EXPENSES
For the year ended May 31, 1986

	1986	1985
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, 1986

1. Accounting Policies

(a) Principles of consolidation

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

(b) Marketable securities

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

(c) Inventory

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

(d) 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.

(e) 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

	1986	1985
10 percent mortgage, due June 1990	$202,667	$202,667
Other investments, without quoted market value	40,000	41,944
	$242,667	$244,611

3. Bank Indebtedness

Bank indebtedness is represented by:		
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

	1986	1985
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 1990.	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:

1987	$14,000
1988	13,500
1989	12,200
1990	14,250
1991	4,200
Subsequent years	1,744
	$59,894

5. Prior Period Adjustment

During 1986, claims by a supplier relating to the years 1983 to 1985 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 1985 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, 1985, 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 one dollar for every four dollars 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 in respect of leased premises to September 1989 at an annual rental of $52,650 plus realty taxes and common expenses, and to March 1988 at an annual rental of $7,380 plus realty taxes and common expenses.

The company is also committed in respect of leased vehicles to various dates expiring up to May 1989 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, 1986, 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:

	1986	1985
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:

	1986	1985
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 a 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 management and administration services are provided to the company controlled by management without charge.

10. Comparative Figures

Certain of the 1985 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 1986.

APPENDIX D

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

General Questions	Answers	Comments
1. Is a primary purpose of an audit—		1. The primary purpose of an audit is to report to shareholders on the fairness of the financial statements.
a. To attest to information used by investors, creditors, and so forth?	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.	Yes	2A. Canada has very similar wording for the ten standards. Auditing standards and auditing recommendations are codified in the *CICA Handbook.*

Notes:

Checklist was 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.
ICAO = Institute of Chartered Accountants of Ontario

General Questions	Answers	Comments
generally accepted auditing standards, which have been published in the AICPA's *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in Canada?		
B. If so, are they published?	Yes	2B. Published in the *CICA Handbook.*
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, and so forth)?	The Auditing Standards Committee of the CICA is responsible for promulgating auditing standards.	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU sec. 331)	Yes. CICA 6020.18	✓			
5. Do auditors observe inventory counts? (AU sec. 331)	Yes. CICA 6030.09(b)	✓			
6. Do auditors receive written representations from management? (AU sec. 333)	Required only for disclosures of claims and possible claims. CICA 6560.19	✓			6. Predominant practice is to obtain a letter containing similar representations as required by AU sec. 333.

7. Do auditors receive written representations from management's legal counsel? (AU sec. 337)	Yes. CICA 6560.07	✓	
8. A. Do auditors prepare and maintain working papers? (AU sec. 339)	Yes. CICA 5145.06 (ICAO Rule of Professional Conduct No. 218)	✓	8. The recommendation is that the auditor document matters that in his opinion are important to support his report. Many provincial institutes have stricter documentation requirements.
B. If so, do they include a written audit program outlining procedures to be performed? (AU sec. 339)	Yes. CICA 5300.01 and 5145.06	✓	
9. Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU sec. 320)	Yes. CICA 5220.23	✓	
10. A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU sec. 323)	No	✓	
B. If so, is the communication documented? (AU sec. 323)		✓	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU sec. 350)	No	✓	
12. Is the auditor responsible for planning his examination to search for errors or irregularities that would have a material effect on the financial statements? (AU sec. 327)	No	✓	12. The auditor seeks reasonable assurance that material fraud and error have not occurred, have been corrected, or are properly accounted for.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU sec. 334)	Yes. CICA Guideline	✓			
B. If so, list the procedures.					13B. Canadian procedures are essentially the same as in the United States.
14. Does the auditor consider the adequacy of cut-off procedures to insure that movements into and out of inventories are properly identified in the accounting records? (AU sec. 313)	Yes. CICA 6030.09(a)	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU sec. 560)	Yes. CICA 5300.37 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 sec. 560)	Yes. CICA 6550.06	✓			
16. The concept of "joint auditors" in certain countries (for example, the United Kingdom and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue	No		✓		16. The practice is unusual and often follows a legislated requirement for specialized industries—for example, banks.

a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in Canada?			
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU sec. 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 6930.22		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 sec. 509)	Yes. CICA 5400.21	✓	18A. See paragraph 29 of text.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU sec. 509)		✓	18B. See paragraph 30 of text.
19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU sec. 420)	Yes. CICA 5400.15	✓	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
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 sec. 530)	No	✓			
B. If not, what date is used?		✓			20B. Date of substantial completion of examination. (CICA 5405.06)
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client. (Code of Professional Ethics, rule 101)	Yes. (ICAO Rule of Professional Conduct No. 204 and incorporating legislation)				21. All provincial institutes have similar rules.
22. Please describe any standards for Canada for which there are no corresponding U.S. standards.					22. Canadian GAAS and U.S. GAAS are essentially the same. See appendix A for a list of Canadian auditing recommendations.

APPENDIX E

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

General Questions	Answers	Comments
1. Are there generally accepted accounting principles in Canada? If so, are they codified?	Yes	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, and so forth)?	The Accounting Standards Committee of the CICA is responsible for promulgating accounting principles.	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	No	✓			3. See paragraph 44 of text.
4. Are interest costs, incurred while activities that are necessary to get	No				4. See paragraph 45 of text.

Note:

References are to sections in the *FASB Current Text,* unless otherwise noted.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
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)	No		✓		5A. See paragraph 44 of text.
B. If so, define the basis.					
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 determinable within reasonable limits? (N35)	No	✓			
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)	No	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	No	✓			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. CICA 3050.06	✓			9A,B. See paragraph 46 of text.
B. Is control usually indicated by ownership of over fifty percent	Yes. CICA 3050.03	✓			

of the outstanding voting shares? If not, how is control indicated?			
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 46 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 paragraph 46 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 paragraph 48 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 48 of text.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. CICA 1580.61		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
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 United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.) (C59)	No	✓		19. Disclosure of a significant but unlikely contingent loss is not required but is desirable. (CICA 3290.17)
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)				20. Segmented disclosure is not required if securities are not traded publicly and financial statements are not filed with a securities commission.
a. Sales to outsiders and intersegment sales?	Yes. CICA 1700.33	✓		
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. (CICA 1700.47)
f. Effect of a change in accounting principle?	No		✓	
21. A. Are there any requirements to disclose the effects of inflation? (C27)	Yes. CICA 4510		✓	21A,B. See paragraphs 50 and 51 of text.
B. If so, list the disclosures required.				
22. Are assets segregated into current and noncurrent classifications,	Yes: re segregation. CICA 1510.01	✓		22. A total is desirable but not required. (CICA 1510.01)

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
with a total for current assets presented? (B05)					
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 (for example; percentage of sales, aging of receivables, and so forth) for calculating the allowance?					24B. Normally specific identification, but when impractical, other methods may be used. (CICA 3020.09)
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount that 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.
28. A. Are the following cost methods permitted for reporting purposes: (I78)				28A. All three methods are permitted. Method used should result in fairest matching of costs and revenues. (CICA 3030.07 through .09)
a. First-in, first-out (FIFO)?	See comments.	✓		
b. Last-in, first-out (LIFO)?	See comments.		✓	
c. Average cost?	See comments.		✓	
B. Are the same methods permitted for tax purposes?	See comments.			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	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
b. Balances of major classes of depreciable assets?	No	✓			31*b*. Disclosure is "desirable." (CICA 3060.03)
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. (CICA 3060.03)
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 52 through 57 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 52 through 57 of text.
34. Are liabilities segregated into current and noncurrent classifications, with a total for current liabilities presented? (B05)	Yes: reclassification. CICA 1510.07	✓			34. A total is desirable but not required. (CICA 1510.07)
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 52 through 59 of text.

36. For notes payable, is disclosure made of—(C59 and Statement of Financial Accounting Concepts No. 5)				
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. Divided restrictions?	No		✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	No	✓		37A. Predominant practice to use one of the methods, although not required.
B. If so, what are the criteria for determining the method to be used?				37B. The same principles underlying the U.S. requirement form the basis of choice in predominant practice.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. CICA 3450.16	✓		
B. Are such costs disclosed?	Yes. CICA 1520.02	✓		
39. A. Are development costs charged to expense when incurred? (R50)	Yes. CICA 3450.19			39A. See paragraphs 60 through 63 of text.
B. Are such costs disclosed?	Yes. CICA 1520.02	✓		
40. A. In the United States, 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	Yes. CICA 3480.05	✓		40A. "Not typical" is used rather than "unusual." In Canada, gains or losses from sale or abandonment of a plant or business segment would usually be classed as extraordinary. Also,

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
reasonably be expected to recur in the forseeable future. Do similar criteria for identifying extraordinary items exist in Canada? (I17)					gains or losses from extinguishment of debt are not defined as extraordinary.
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 3480.12	✓			
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 1520.02 and 3480	✓			
c. Disposal of a segment of a business? (I13)	Yes. CICA 3480	✓			42*c.* Treat as an extraordinary item.
B. Indicate the financial statement presentation of these items.					42B. No significant differences other than in treatment of specific items as described in No. 40. There are no laid-down rules for calculating gain or loss on disposal of a segment.

43. A. Are pension costs provided for covered employees over the term of employment? (P15)	Yes. CICA 3460.11	✓	43A,B. See paragraphs 64 through 67 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 3460.18	✓	
44. A. Are specific disclosures required relating to pension plans? (P15)	Yes. CICA 3460	✓	
B. If so, list them.			44B. See paragraph 66 of text.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for timing differences (as opposed to permanent differences)? (I24)	Yes. CICA 3470.13	✓	
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	No		45B,C. See paragraphs 68 through 69 of text.
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?			
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24)	Yes. CICA 3470.20	✓	
B. If not, on what basis?			
47. A. Is specific information related to income taxes required to be disclosed? (I28)	Yes. CICA 3470	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, list the requirements.					47B. See paragraph 69 of text.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I37)	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? (I37)	Yes	✓			
B. If so, are the tax effects of a loss carryforward included in the period realized?					49B. See paragraph 68 of text.
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. CICA 1650	✓			50. See paragraph 70 of text.
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. CICA 1650	✓			51. See paragraph 70 of text.
52. A. Are translation adjustments reported separately? (F60)	Yes. CICA 1650	✓			52A,B,C. See paragraph 70 of text.
B. Are they accumulated in a separate component of	Yes. CICA 1650	✓			

stockholders' equity until ultimately realized?			
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 70 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 transaction? (F60)	Yes. CICA 1650	✓	54. See paragraph 70 of text.
55. What information is disclosed about foreign currency restrictions?			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)

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?	Yes. CICA 3820.06 and .10	✓			
57. Please list any standards for Canada for which there are no corresponding U.S. standards.					57. Canadian GAAP and U.S. GAAP are essentially the same. See appendix B for a list of Canadian accounting recommendations.

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