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

Coopers & Lybrand

Steven F. Moliterno

THIRD EDITION, REVISED

The Accounting Profession in Canada

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA

American Institute of Certified Public Accountants

The Accounting Profession in Canada Third Edition, Revised
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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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Frank J. Schwitter, *Chair*
James B. Ghartey
Howard P. Keefe

AICPA Staff

John F. Hudson, *Vice President, Technical Standards and Services*

Steven F. Moliterno, *Technical Manager, Technical Information Division*

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The Accounting Profession in Canada

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Prepared by

Coopers & Lybrand

STEVEN F. MOLITERNO, CPA
Series Editor

AICPA
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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of January 1994. Changes made after this date in the standards of either the United States or Canada may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Canada. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Canadian auditing standards and accounting principles with those generally accepted in the United States are included as 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 F. Hudson
Vice President—Technical
Standards and Services

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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 of Canada (CGA), and the Society of Management Accountants of Canada; they can be reached at the following addresses:

The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2

Association of Certified General Accountants of Canada
1188 West Georgia Street
Suite 700
Vancouver, B.C. V6E 4A2

The Society of Management Accountants of Canada
120 King Street West
Suite 850
Hamilton, Ontario L8P 4V2

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

restricted to chartered accountants (CAs). The responsibilities of the 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
- Expressing the profession's viewpoint on national matters of concern
- Publishing a professional journal and other publications
- Providing national communications and public relations
- Representing the Canadian profession internationally

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

- Educating, training, and admitting new members
- Monitoring professional conduct and ethics, including investigating complaints and disciplining misconduct
- Acting as liaison with provincial governments, agencies, and organizations
- Providing provincial public relations and community service programs

4. The provincial institutes share certain responsibilities with the CICA, including providing long-range planning for the profession and offering 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 CA. The minimum requirements before an application will be considered are the successful completion of examinations in law, tax, and the *Canadian Institute of Chartered Accountants Handbook (CICA Handbook)*[1] and the province's rules of

[1]The *CICA Handbook* contains the codified accounting principles and auditing standards of the CICA's Accounting Standards Board (AcSB) and Auditing Standards Board.

professional conduct. Each applicant is carefully screened, and his or her background is reviewed to determine what additional courses, if any, 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 Board and the Auditing Standards Board of the CICA. The *CICA Handbook* has gained quasi-legal status from the recognition by securities administrators and in federal and provincial legislation that it constitutes the formal principles and standards for financial reporting and public accounting in Canada.

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

8. An Emerging Issues Committee of the CICA meets regularly to review emerging accounting issues that are likely to receive a divergent or unsatisfactory treatment in the absence of some guidance. Abstracts of the committee's views are included in the *CICA Handbook*.

9. Research studies, research reports, and audit technique studies are also issued periodically on a wide range of subjects and may serve as the basis for subsequent pronouncements.

Ethics Requirements

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

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

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

a. Earn a university degree.
b. Obtain employment with a public accounting firm approved to train students.
c. Attend courses sponsored by or approved by the provincial institute and pass a series of provincial examinations.
d. Pass a set of national examinations.
e. Serve a minimum term with an approved public accounting firm.

Rights of Membership

12. On completing these steps, a member gains the right to use the designation *chartered accountant* and to use the initials CA after his or her name. These rights are granted by the provinces.

Number of Members

13. There are approximately 53,000 CAs; of these, approximately 40 percent are engaged in public accounting.

CPE Requirements

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

15. In addition, many provincial institutes have a practice advisory service to assist in addressing specific problems, as well as 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

16. In Canada, a company may be incorporated under either federal or provincial legislation. Each province's legislation parallels the legislation of the federal government; however, there is often a considerable delay before conforming amendments are made to provincial legislation.

17. The purpose of the statutory audit is not formally defined in the law. However, the *Canadian Institute of Chartered Accountants Handbook* (*CICA Handbook*) section 5000.01 states—

> The objective of an audit of financial statements is to express an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations, and changes in financial position in accordance with generally accepted accounting principles, or in special circumstances another appropriately disclosed basis of accounting. Such an opinion is not an assurance as to the future viability of an entity nor an opinion as to the efficiency or effectiveness with which its operations, including internal control, have been conducted.

Entities Required To Be Audited

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

- Securities are not offered to the public.
- All shareholders agree in writing each year to waive the audit requirement.
- The company and its affiliates have assets not exceeding $5 million (Canadian dollars) and gross revenues not exceeding $10 million ($2.5 million and $5 million, respectively, for Ontario corporations, including Canadian resident affiliates), or it has obtained an exemption, if available, under the legislation.

Appointment and Qualifications of Auditors

19. At their first annual or special meeting, the shareholders appoint the auditor to hold office until the next annual meeting.

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

21. An auditor should not accept an appointment until he or she has requested and received from the preceding auditor a written statement of any professional reason why the appointment should not be made.

22. An auditor must be independent and must comply with the Rules of Professional Conduct, which are the same in each province.

Auditing and Reporting Responsibilities

23. *CICA Handbook* section 5000 states—

> The operations of an entity 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 those related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets, and preventing and detecting error and fraud. An audit of the financial statements does not relieve management of its

responsibilities. The auditor may make suggestions as to the form or content of the financial statements or the auditor may draft them in whole or in part, based on management's accounting records. However, financial statements remain the representations of management.

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

The auditor performs the audit with an attitude of professional scepticism, and seeks reasonable assurance whether the financial statements are free of material misstatement. The auditor normally designs 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 use of judgment, the use of testing, the inherent limitations of internal control, and the fact that much of the evidence available to the auditor is persuasive rather than conclusive in nature.

24. The assumption of management's good faith is a fundamental auditing postulate. This assumption is normally necessary for an audit to be economically and operationally feasible. This assumption means that, in the absence of evidence to the contrary, the auditor can accept accounting records and documentation as genuine and representations as complete and truthful. The assumption of management's good faith is neither a source of audit evidence nor a substitute for the requirement to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the content of the auditor's report.

Filing of Reports

25. For a company offering its securities to the public, the financial statements of management are first submitted for review to an audit committee composed of no fewer than three directors of the company, a majority of whom are not officers or employees of the company or of any of its affiliates. The audit committee then reports

to the board of directors, which is responsible for approving the statements. The statements, with the auditor's report, are presented to the shareholders at the annual meeting, which is to be held not later than fifteen months after the last annual meeting. Public companies must file a copy of the statements and the auditor's report with the provincial securities commission.

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

Standards Issued

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

General Standards

27. Generally accepted auditing standards (GAAS) in Canada includes one general standard that states the following.

> The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind.

Standards of Fieldwork

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

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

b. A sufficient understanding of internal control should be obtained to plan the audit. If control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment.

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

Standards of Reporting

29. The following are the Canadian standards of reporting.

a. The report should identify the financial statements and distinguish between the responsibilities of management and the responsibilities of the auditor.

b. The report should describe the scope of the auditor's examination.

c. 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.

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

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

AUDITOR'S REPORT

To the Shareholders of ____:
I have audited the balance sheet of ______________________________
as at ____________________, and the statements of income, retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at [*date*] 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.

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

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

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

32. *CICA Handbook* section 5400.22 states that, "when there is a departure from a Handbook Recommendation and the auditor concludes that following the Recommendation would result in misleading financial statements, he or she should express an opinion without reservation, provided the related disclosure is adequate." U.S. standards also provide for an unqualified opinion in these circumstances but require full disclosure within the report of the departure, the approximate effects thereof, and the reasons compliance would result in misleading statements.

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

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

35. The Canadian auditor's opinion extends to the comparative figures only if specifically stated in the report. This is rarely done for private entities but is required by the Ontario Securities Commission for publicly listed companies. Auditors are required to ensure that the financial statements or the report disclose whether the comparative information is unaudited or was reported on by another auditor. If the comparative figures were subject to a reservation of opinion, it would be disclosed in the report unless the reservation is no longer relevant.

36. When the financial statements and auditor's report are included in an annual report, it is the responsibility of the auditor to determine whether the financial statements have been accurately reproduced and to consider whether any information in the annual report is inconsistent with the financial statements.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

37. The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) has codified accounting principles in the *CICA Handbook.* The *CICA Handbook* has gained status from recognition by securities administrators and federal and provincial legislation. (The accounting recommendations of the *CICA Handbook* are listed in appendix B.)

38. Codification of generally accepted accounting principles (GAAP) in Canada is not as extensive as in the United States. The emphasis in Canada is on the use of professional judgment in determining what constitutes fair presentation. If GAAP has not been codified in the *CICA Handbook,* a practitioner would seek guidance from CICA accounting guidelines, research studies, research reports, abstracts of the CICA Emerging Issues Committee, published financial statements of companies in the industry involved, International Accounting Standards (IAS), and the literature of other countries, including U.S. pronouncements.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

39. There are no significant differences between Canada and the United States in the form and content of financial statements

other than those that result from differences in GAAP, as described in paragraphs 41 through 57 and in appendix E. Illustrative Canadian financial statements are presented in appendix C.

Types of Statements

40. 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 normally required for a company with subsidiaries. There are exceptions to this requirement for certain small companies.

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

41. Since Canada and the United States engage in extensive dealings, the development of accounting principles and practices in Canada has resulted in more similarities than differences.

42. A discussion of significant Canadian GAAP and differences between Canadian and U.S. accounting principles follow.

Historical-Cost Basis

43. As in the United States, financial statements are prepared primarily using the historical-cost basis.

44. *CICA Handbook* section 1625 requires a comprehensive revaluation of the financial statements to fair value when the enterprise has been subject to a financial reorganization (that is, a substantial realignment of the equity and nonequity interests of an enterprise)

and the same party does not control the enterprise both before and after the reorganization (for example, emergence from bankruptcy).

45. Push-down accounting is permitted if, as a result of an arm's-length transaction, virtually all of the equity interest in an enterprise has been acquired.

Interest Costs During Construction of an Asset

46. There are no standards requiring or prohibiting the capitalization of interest costs; although in the real estate industry it is generally accepted to capitalize interest and other carrying costs on properties that are being held or are already under development. Some entities capitalize interest in certain circumstances while others do not. Disclosure of the amount of capitalized interest is required by *CICA Handbook* section 3850.03.

Consolidated Financial Statements

47. A subsidiary is defined as an enterprise that is controlled directly or indirectly by another. Control is generally indicated when a company has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks.

48. Consolidation is not required if, at the time of acquisition, disposition of the investment in the foreseeable future is intended. It is also not required for certain small companies. If consolidation is appropriate at the time of acquisition, it continues for as long as control exists.

Application of the Equity Method

49. The equity method is appropriate if an investor has the ability to exercise significant influence over an investee. Only rarely would ownership of less than 20 percent of the voting interest result in the ability to exercise significant influence.

Business Combinations

50. Most combinations are accounted for as purchases in both Canada and the United States. It is unusual for a combination to be considered a pooling.

51. If an acquirer can be identified, the purchase method is used. A company that distributes significant assets or incurs significant liabilities in order to obtain another business is clearly the acquirer. In those rare circumstances in which an acquirer cannot be identified, the pooling of interests method is used.

52. There are a number of differences between Canada and the United States with respect to the method of applying purchase accounting. In Canada, the following occur.

- Negative goodwill, defined as the excess of the assigned values of the net assets acquired over the purchase price, is eliminated by reducing the amounts assigned to nonmonetary assets.
- In allocating fair value to both the assets acquired and the liabilities assumed, the tax basis of the item is taken into consideration.
- Planned restructuring and integration costs relating to the acquiring company may be included in the purchase price allocation, but only when they are incremental and are direct substitutes for costs that would otherwise be incurred with respect to the acquired business or are due to government regulation.

Leases

53. 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.

54. 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.

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

56. 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.

57. For a lessee under a capital lease—

- The gross amount of assets under capital leases and related accumulated amortization should be disclosed.

- Obligations related to leased assets should be shown separately from other long-term obligations. Information 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 the 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 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.

58. The lessor's net investment in direct financing and sales-type leases should be disclosed, and separated into 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

59. Noncurrent liabilities are not specifically defined. Current liabilities include the following:

- Amounts payable within one year or 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

60. Excluded from current liabilities are obligations otherwise classified as current liabilities but settlement is from other than current assets.

Development Costs

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

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

a. The product or process is clearly defined, and the costs attributable thereto can be identified.
b. The technical feasibility of the product or process has been established.
c. Management 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.

63. 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 based on commercial production or use of the product or process.

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

Extraordinary Items

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

a. It is not expected to occur frequently in the future.
b. It does not typify a normal business activity.
c. It does not depend primarily on decisions or determinations made by management or owners.

66. Should an extraordinary item result in a discontinued operation, any gain or loss must be reported as an extraordinary

item rather than in conjunction with the results of discontinued operations.

Pension Plans

67. Accounting for pension plans in Canada closely parallels that in the United States. Pension expense is recorded over the employees' expected service. However, in Canada—

- The amount deferred relating to changes in assumptions and experience gains and losses is amortized over the estimated average remaining service life of the employee group.
- Actuarial valuations are performed "periodically. . .although the period would not normally exceed three years. . . (with extrapolation used in the years between valuations)."

68. Although in Canada there are a number of desirable disclosures, the requirements are much less extensive. Following are required disclosures for a defined-benefit pension plan:

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

The required disclosure for a defined contribution pension plan is the present value of required future contributions for past service.

Accounting for Income Taxes

69. Significant differences in principle and measurement currently exist between Canadian and U.S. GAAP. The Accounting Standards Board has, however, commenced a project to review Canadian standards regarding income taxes. Currently the deferral method of income tax allocation is required. Under this method, no adjustments are made for changes in tax rates. In Canada, deferred taxes are provided for timing differences between accounting income and taxable income that reverse over time. This approach has an income statement focus.

70. Deferred taxes are provided for all timing differences except in the following cases:

a. Life insurance enterprises may be exempted from certain of the requirements.

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.

71.. The income-tax disclosures required for Canadian companies include the following.

- Accumulated tax allocation credits, debits, or both should be segregated in the balance sheet between *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 current assets or current liabilities.
- Noncurrent accumulated-tax allocation debits or credits should be shown as a deferred charge or deferred credit.
- The income statement should disclose the total provision for income taxes.
- The amount by which the current income-tax provision has increased or decreased as a result of tax deferrals should be disclosed.
- An enterprise whose securities are traded in a public market or that is required to file financial statements annually with a securities commission should disclose in its financial statements the components of the variation from the basic income-tax rate. Significant offsetting items included in the income-tax provision should be disclosed even when there is no variation from the basic income-tax rate.
- The related tax effect for discontinued operations and extraordinary items should be shown separately in the income statement with the discontinued operations or extraordinary items, and not as part of the provision for income taxes included in "income before discontinued operations and extraordinary items."
- To provide a proper matching of costs and revenues, reductions or increases in income taxes attributable to items included in retained earnings should also be included and disclosed in retained earnings.
- If potential tax benefits resulting from business losses have not been recognized in the financial statements, the following information should be disclosed:

  a. The amount of the loss carryforwards for tax purposes

  b. The expiration dates of the loss carryforwards *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 reverse. In the absence of such assurance, deferred income-tax debits accumulated in prior periods should be written off.
- If a tax benefit resulting from a loss carryforward was not recorded in the period in which the loss occurred, it should be shown in the income statement in the year realized.
- The recovery of refundable taxes previously charged to retained earnings should be credited to retained earnings and should be separately disclosed.

Foreign Currency Translation

72. 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 similar in Canada and the United States. The major differences follow.

- In Canada, gains or losses on translation of 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 their effectiveness as a hedge.
- It is desirable, but not required, to disclose income statement gains or losses.
- A "highly inflationary" situation requires use of the temporal method.
- Reductions in the shareholders' equity as a result of capital transactions, such as some dividend distributions or capital restructuring, trigger a transfer to income of a proportionate share of the cumulative translation adjustment account.

Depreciation

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

Accounting Changes

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

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

Compensated Absences

76. There are no standards in Canada relating to the treatment of costs such as vacation entitlement and sick leave. General practice is to accrue the estimated cost of vacation entitlements earned but not taken. The cost of other compensated absences is often accounted for on a cash basis.

Earnings per Share

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

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

Investment Tax Credits

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

Government Assistance

79. In Canada, government assistance (including forgivable loans) is recognized when the company becomes entitled to receive

it. Assistance related to current revenues or expenses is included in income. Assistance related to noncurrent expenses is deferred and amortized to income as the related expenses are incurred.

80. 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

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

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

82. Disclosure is also required for the amount of government assistance deferred, the period of amortization, and the basis of amortization of the deferral.

Joint Ventures

83. The distinctive feature of a joint venture is that decisions essential to the venture require the consent of the venturers. In both Canada and the United States, investments in joint ventures are usually accounted for by the equity method. In Canada, it is permissible to use the proportionate consolidation method (that is, include the venturer's share of each asset, liability, revenue, and expense) if a significant portion of the venturer's activities is carried out through joint ventures. In Canada, when a significant portion of the venturer's activities is carried out through joint ventures accounted for using the equity method, summarized financial information is presented of the venturer's share of assets, liabilities, revenues, and expenses of the venture.

Marketable Securities

84. 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 on disposal of investments is calculated on the basis of the average carrying value.

Statement of Changes in Financial Position

85. Both Canada and the United States require similar statements. Both countries permit the direct and the indirect methods of reporting operating activities. The direct method reports cash flows on a gross basis by presenting major classes of operating cash receipts and payments. The indirect method, which is most commonly used, begins with net earnings and reconciles to cash flow from operations.

86. There are differences between Canadian and U.S. GAAP in terms of the definition of cash and cash equivalents, dividend classification, and noncash investing and financing activities. In Canada, the following occur.

- Cash and cash equivalents include cash net of short-term borrowings, temporary investments, and other working capital items when they are equivalent to cash.
- Dividend payments may be classified as a financing activity, operating activity, or shown separately.
- Noncash financing and investing activities are presented in the statement.

Future Contracts (Other Than Foreign Exchange)

87. In Canada, there are no pronouncements specifically dealing with hedges, and predominant practice has not been established. The CICA has issued an exposure draft, *Financial Instruments*, which proposes comprehensive recommendations on hedging using derivative instruments, including futures contracts.

88. Most companies follow the U.S. approach contained in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 80, *Accounting for Futures Contracts.*

Compensation to Employees: Stock Purchase and Option Plans

89. 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; companies usually do not

record any expense for the excess of the market value of stock over its issue price. Proceeds received are credited to share capital.

90. Stock appreciation rights (SARs) entitle employees to receive cash, stock, or some combination thereof equal to any excess of market value of a stated number of shares of employer's stock over a stated price. If the employee is entitled to receive cash, compensation is measured at the grant date based on the market price of the stock and is accrued as an expense over the service period.

Postretirement and Postemployment Benefits Other than Pensions

91. There are no rules regarding the measurement and recognition of postretirement and postemployment benefits other than pensions. The benefits may be accrued as is required in the United States. Canadian companies usually record the cost on a pay-as-you-go basis. The nature of the benefits provided and the method of recording them are required to be disclosed.

Transfers of Receivables

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

Recognition of Depreciation by Not-for-Profit Organizations

93. The accounting method used for fixed assets should be disclosed. When fixed assets are expensed immediately, the amount expensed should be disclosed. The method of accounting for fixed assets (such as capitalize and depreciate, capitalize with no depreciation, and expense immediately) are all presently acceptable.

Prior-Period Adjustments

94. As in the United States, prior-period financial statements are restated to correct errors. The nature of the error and the effect of its correction on the financial statements are disclosed.

Discontinued Operations

95. The criteria for identifying a business segment as a discontinued operation, and the method of accounting and disclosures

required are similar to those in the United States. The results of discontinued operations are included in net income and reported separately for current and prior years. Results of operations prior to the measurement date and net gain or loss from discontinued operations are shown separately.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

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

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

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

- Issue of shares for less than fair market value
- Granting of financial assistance contrary to the Act (normally to insiders)

- Purchase, redemption, or other acquisition of shares contrary to the Act
- Payment of certain commissions
- Payment of certain dividends (insolvency considerations)
- Payment of an indemnity contrary to the Act (dissenting shareholder and court order situations)
- Gains resulting from undeclared insider knowledge
- An unlawful contamination of the environment
- Appropriation for personal benefit of a corporate opportunity or contract even if the corporation was not itself able to react

99. A majority of the directors of a corporation, and a majority forming a quorum to conduct business, must be Canadian residents.

100. 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 prevent direct or indirect distributions to shareholders.

Branches of a Foreign Company

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

- The foreign corporation must assume unlimited liability for the 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 tax authorities.

Partnership Entities

102. 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.

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

104. 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

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

INVESTMENT CANADA ACT

106. Although the 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. In addition, all direct and certain indirect acquisitions of a business or its assets by a non-Canadian are subject to review if the gross assets exceed $5 million. Approval will generally be given if the transaction is seen as not detrimental to Canadians.

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

Registration Requirements for Public Sale

107. 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
- 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.

108. The requirements for registration by each of the provinces are similar and stress full, true, and plain disclosure of all material facts in a prospectus relating to new issues. The required information is quite extensive, including such elements as the nature of the security, issue price, commission structure, plan of distribution, use of proceeds, description of the business, and risk factors. Financial disclosures normally include two-year comparative balance sheets and five-year comparative income and cash flow statements prepared in accordance with GAAP and reported on by an auditor in accordance with GAAS as promulgated by the CICA. Additional financial statement disclosures are required for 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. The securities legislation also includes regulations regarding the filing of quarterly and annual financial statements, solicitation of proxies, takeover and insider bids, insider trading, and self-dealing.

Requirements for Listing Securities on the Stock Exchanges

109. The Toronto Stock Exchange (the Exchange) is the largest in Canada. Approval for listing is at the discretion of the Exchange. Although there are exemptions, the normal requirements for listing include the following:

a. One million outstanding publicly held shares and more than 300 public shareholders
b. A market value of the publicly held shares in excess of $1 million
c. A capable management team
d. Adequate financial resources as summarized in paragraphs 110 through 112

110. For industrial companies, the adequacy of financial resources entails one of two possible sets of characteristics. The first is 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

The second possibility is the following:

d. Pretax profitability of at least $100,000 in the preceding fiscal year
e. Pretax cash flow of $400,000 in the preceding fiscal year
f. Adequate working capital and capitalization to carry on the business

111. For mining companies, adequate financial resources may 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

The other possibility is the following:

d. A program of exploration, satisfactory to the Exchange, prepared by a qualified and independent technical authority *e.* Sufficient funds (at least $500,000) to complete the next stage of exploration or development

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

g. Adequate capitalization to carry on the business

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

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

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

c. Adequate capitalization to carry on the business

d. Minimum annual pretax cash flow of $100,000

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

The following may also demonstrate these resources:

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

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

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

i. Adequate capitalization to carry on the business

113. 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 the following:

- An annual questionnaire
- Quarterly and annual financial statements
- Notification about any material change in the business

- Notification about changes that may affect the control of the company
- Notification about changes affecting share capital

SELECTED ECONOMIC DATA

114. Key demographic and social factors follow.

Area (in millions of square miles)	3.8
Population (1991 census, in millions)	27.3
Population under age 20	28.8%
Labor force (in millions)	13.8
Median years of education	12.5
Population graduated from university or community college	25.1%

115. The major Canadian trading partners, as of 1992, are as listed below.

Country or Area	*Exports ($ millions)*	*Imports ($ millions)*
United States	121,165	104,390
Japan	7,233	8,834
United Kingdom	3,081	4,004
Other European Community Countries	8,293	9,454
Other	16,796	20,905
	156,568	147,587

116. Canadian export and import products for 1992 are presented below.

Product	*Exports ($ millions)*	*Imports ($ millions)*
Automobiles	38,014	33,867
Machines and equipment	31,146	46,031
Industrial	29,779	26,906
Forest	20,214	1,388
Energy	15,891	6,374
Agricultural and fish	14,509	9,736
Consumer goods	3,863	18,943
Other	3,152	4,342
	156,568	147,587

TAXES

117. Although an attempt has been made to match the determination of taxable income to income for accounting purposes, there are still many timing differences and special provisions. However, where taxation legislation is silent, normal accounting policies are followed.

Principal Types

Federal Income Taxes

118. The federal government levies taxes on active business income of corporations at a rate of approximately 38 percent of taxable income and provides a variety of tax-rate reductions. A foreign corporation operating as a branch would be subject to a similar rate of tax.

119. For 1993, individuals were taxed federally as follows:

- 17 percent on the first $29,589 of taxable income
- 26 percent on taxable income between $29,590 and $59,180
- 29 percent on taxable income over $59,180

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

Federal Large Corporations Tax

121. Federal Large Corporations Tax (LCT) is imposed at a rate of 0.2 percent on taxable capital employed in Canada in excess of $10 million. The tax is not deductible in computing income for tax purposes. It is reduced by the 3-percent corporate surtax liability on Canadian-source income. Any unused Canadian surtax liability can be applied to reduce LCT for the next seven years.

Provincial Income Taxes

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

Provincial Capital Taxes

123. Five provinces levy a tax on capital employed by corporations in the province. Each province has different rules for calculation, but generally the rate is 0.3 percent to 0.6 percent of taxable capital.

Goods and Services Tax

124. The Goods and Services Tax (GST) is a tax paid by the end consumer and is therefore similar to the value-added tax currently in place in many other countries. Under the GST system, a business collects tax from its consumers on the basis of the sale price of taxable goods or services multiplied by the GST rate of 7 percent. Each business, however, is entitled to claim a refund (or input tax credit) for any tax paid on the purchase of goods or services used in its commercial activities. The total tax collected by a business on sales during a given period less the input tax credit is remitted to the federal government. If in a given period the input tax credit exceeds the tax collected on sales, the business is entitled to a refund. Certain items such as basic groceries, health care, and financial services are not subject to the tax.

Provincial Sales Taxes

125. All provinces (except Alberta, the Yukon, and the Northwest Territories) levy a sales tax at the retail level at rates ranging from 4 to 12 percent.

Other Taxes

126. Other taxes common in some jurisdictions include property taxes on the value of both residential and commercial land and buildings, business taxes, land transfer taxes, logging taxes, and mining and mineral extraction taxes.

Tax Returns

127. Corporate tax returns 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.

128. 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[1]

General Auditing

5000 *Audit of financial statements—an introduction*
5020 *Association*
5100 *Generally accepted auditing standards*
5101 *International Auditing Guidelines*
5130 *Materiality and audit risk in conducting an audit*
5135 *Auditor's responsibility to detect and communicate misstatements*
5140 *Knowledge of the client's business*
5145 *Documentation*
5150 *Planning and supervision*

Internal Control in the Context of an Audit

5200 *Scope and introduction*
5205 *Understanding internal control for audit planning purposes*
5210 *Assessing control risk*
5215 *Reliance on the internal auditor*
5220 *Internal control letter*

Audit Evidence

5305 *Audit of accounting estimates*
5310 *Audit evidence considerations when an enterprise uses a service organization*
5360 *Using the work of a specialist*
5365 *Communications with actuaries*
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*

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

5520 *Auditor's report on nonconsolidated financial statements prepared in accordance with paragraphs 3050.39–.47 of long-term investments*
5701 *Other reporting matters*

Special Reports

5800 *Introduction*
5805 *Audit reports 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 *Audit reports on compliance with agreements, statutes, and regulations*
5900 *Opinions on control procedures at a service organization*

Specific Items—Auditing

6020 *Accounts and notes receivable*
6030 *Inventories*
6550 *Subsequent events*
6560 *Communications with law firms regarding claims and possible claims*
6930 *Reliance on another auditor*

Specialized Areas—Auditing

7100 *The auditor's involvement with prospectuses and other offering documents*
7500 *The auditor's involvement with annual reports*
7600 *Reports on the application of accounting principles, auditing standards, or review standards*

Related Services

Review Engagements

8100 *General review standards*
8200 *Reviews of financial statements*
8500 *Reviews of financial information other than financial statements*
8600 *Reviews of compliance with agreements and regulations*

Compilation Engagements

9200 *Compilation engagements*

APPENDIX B

CICA Accounting Recommendations[1]

General Accounting

1000 *Financial statements concepts*
1500 *General standards of financial statement presentation*
1501 *International Accounting Standards*
1505 *Disclosure of accounting policies*
1506 *Accounting changes*
1510 *Current assets and current liabilities*
1520 *Income statement*
1540 *Statement of changes in financial position*
1580 *Business combinations*
1590 *Subsidiaries*
1600 *Consolidated financial statements*
1625 *Comprehensive revaluation of assets and liabilities*
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*

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

3050 *Long-term investments*
3055 *Investments in corporate and unincorporated joint ventures*
3060 *Capital assets*
3065 *Leases*
3070 *Deferred charges*
3210 *Long-term debt*
3240 *Share capital*
3250 *Surplus*
3260 *Reserves*
3280 *Contractual obligations*
3290 *Contingencies*
3400 *Revenue*
3450 *Research and development costs*
3460 *Pension costs and obligations*
3470 *Corporate income taxes*
3471 *Corporate income taxes—additional areas*
3475 *Discontinued operations*
3480 *Extraordinary items*
3500 *Earnings per share*
3600 *Prior period adjustments*
3610 *Capital transactions*
3800 *Accounting for government assistance*
3805 *Investment tax credits*
3820 *Subsequent events*
3830 *Non-monetary transactions*
3840 *Related-party transactions—disclosure considerations*
3850 *Interest capitalized—disclosure considerations*

Specialized Areas—Accounting

4000 *Prospectuses*
4100 *Pension plans*
4210 *Life insurance enterprises—specific items*
4230 *Non-profit organizations—specific items*
4250 *Future-oriented financial information*

APPENDIX C

Illustrative Auditor's Report and Financial Statements

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

AUDITOR'S REPORT

To the Shareholders of Product Distributors Limited:

We have audited the balance sheet of Product Distributors Limited as at December 31, 1993, and the statements of income, retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1993, and the results of its operation and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Canada
February 1, 1994 Chartered Accountants

PRODUCT DISTRIBUTORS LIMITED
BALANCE SHEET
December 31, 1993

	1993	*1992*
ASSETS		
Current		
Cash	$ 812	$ 3,251
Accounts receivable	799,794	688,156
Marketable securities (market value 1993, $62,431; 1992, $125,943)	53,251	25,463
Inventory	451,530	442,871
Prepaid expenses	6,656	10,999
	1,312,043	1,170,740
Investments (Note 2)	242,667	244,611
Fixed		
Office furniture and equipment	110,174	99,641
Leasehold improvements	24,963	30,401
	135,137	130,042
Less accumulated depreciation	71,541	85,986
	63,596	44,056
Other		
Cash surrender value of life insurance	17,775	12,950
	$1,636,081	$1,472,357
LIABILITIES		
Current		
Bank indebtedness (Note 3)	$ 160,224	$ 227,582
Accounts payable	545,518	425,532
Income taxes payable	29,060	70,316
Current portion of long-term debt	14,000	18,000
	748,802	741,430
Long-Term Debt (Note 4)	45,894	59,979
Advances From Shareholders (Note 9)	18,000	12,000
Deferred Income Taxes	65,000	38,000
	877,696	851,409

	1993	1992
SHAREHOLDERS' EQUITY		
Share Capital		
Authorized		
30,000 preference shares, each carrying a noncumulative dividend of $.095 and redeemable at $1		
10,000 common shares		
Issued		
10,000 common shares	10,000	10,000
Retained Earnings	748,385	610,948
	758,385	620,948
	$1,636,081	$1,472,357

APPROVED BY THE BOARD:

____________________________, Director

____________________________, Director

PRODUCT DISTRIBUTORS LIMITED
STATEMENT OF RETAINED EARNINGS
For the year ended December 31, 1993

	1993	1992
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 December 31, 1993

	1993	*1992*
Sales	$3,083,386	$2,983,445
Cost of Sales		
Inventory, beginning of year	442,871	381,038
Purchases	1,708,711	1,786,458
	2,151,582	2,167,496
Inventory, end of year	451,530	442,871
	1,700,052	1,724,625
Gross Profit	1,383,334	1,258,820
Expenses (See schedule)		
Selling	407,698	318,537
Administrative	647,691	624,284
	1,055,389	942,821
Income From Operations	327,945	315,999
Other Income		
Interest	31,151	23,272
Dividends	11,532	8,294
	42,683	31,566
Income Before Income Taxes and Extraordinary Item	370,628	347,565
Income Taxes	178,835	150,790
Income Before Extraordinary Item	191,793	196,775
Gain on Expropriation of Land and Buildings, Net of Income Taxes of $70,209	–	189,481
Net Income	$ 191,793	$ 386,256

PRODUCT DISTRIBUTORS LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 1993

	1993	*1992*
Cash Provided by (Used for)		
Operating activities		
Cash from operations		
Income before extraordinary item	$ 191,793	$ 196,775
Items not affecting cash:		
Depreciation and amortization	15,957	20,486
Deferred income taxes	27,000	16,000
Change in working capital items related to operations	(37,224)	22,640
	197,526	255,901
Financing activities		
Long-term debt incurred	–	63,000
Reduction in long-term debt	(18,085)	(29,746)
Long-term investments	1,944	(57,522)
Shareholder advances	6,000	–
	(10,141)	(24,268)
Dividends		
Dividends paid	(58,247)	(209,327)
Refundable taxes recovered, net	3,891	44,442
	(54,356)	(164,885)
Investing activities		
Gain on expropriation of land and buildings, net of income taxes of $70,209	–	189,481
Additions to fixed assets	(35,497)	(20,271)
Cash surrender value of life insurance	(4,825)	(663)
	(40,322)	168,547
Change in Cash	92,707	235,295
Cash, Beginning of Year	(198,868)	(434,163)
Cash, End of Year	$(106,161)	$(198,868)
Cash Comprises		
Cash	$ 812	$ 3,251
Marketable securities	53,251	25,463
Current bank indebtedness	(160,224)	(227,582)
	$(106,161)	$(198,868)

PRODUCT DISTRIBUTORS LIMITED
SCHEDULE OF EXPENSES
For the year ended December 31, 1993

	1993	*1992*
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
December 31, 1993

1. Significant Accounting Policies

Principles of Consolidation

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

Marketable Securities

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

Inventory

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

Fixed Assets

Fixed assets are recorded at cost.

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

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

Income Taxes

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

2. Investments, at Cost

	1993	*1992*
10-percent mortgage, due January 1998	$202,667	$202,667
Other investments, without quoted market value	40,000	41,944
	$242,667	$244,611

3. Bank Indebtedness

	1993	*1992*
Overdraft	$ 13,724	$ 1,582
Demand loan	146,500	226,000
	$160,224	$227,582

4. Long-Term Debt

	1993	*1992*
Bank loan at prime plus 1.5 percent. 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 1997.	38,421	43,562
	59,894	77,979
Less principal payments due within one year	14,000	18,000
	$45,894	$59,979

5. Prior Period Adjustment

During 1993, claims by a supplier relating to the years 1990 to 1992 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 1992 and the previously reported balances restated. The remaining $32,292, less related income taxes of $16,792, is applicable to years prior to December 31, 1992, and has been credited to retained earnings at that date.

6. Refundable Taxes

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

7. Commitments

The company is committed to leased premises until April 1996 at an annual rental of $52,650 plus realty taxes and common expenses, and to October 1995 at an annual rental of $7,380 plus realty taxes and common expenses.

The company is also committed to leased vehicles for various dates expiring up to December 1997 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 affiliate at December 31, 1993, 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:

	1993	*1992*
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:

	1993	*1992*
Sales of product to		
Company controlled by management	$105,241	$ 98,181
Shareholder affiliate	18,064	101,260
	$123,305	$199,441
Purchases of product from		
Company controlled by management	$ 573	$ 615
Shareholder affiliate	3,496	6,631
	$ 4,069	$ 7,246
Purchases of services from		
Company controlled by management	$ 4,950	$ –
Interest on advances paid to		
Shareholder affiliate	$ 750	$ 300
Managing director (who is also a shareholder)	1,800	800
	$ 2,550	$ 1,100

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

10. Comparative Figures

Certain of the 1992 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 1993.

APPENDIX D

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

General Information	Answer	Comments
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, etc.?	Yes	1*a*–*c*. The primary purpose of an audit is to report to shareholders on the fairness of the financial statements.
b. To satisfy statutory requirements (for example, the Companies Act)?	No	
c. For tax purposes?	No	

Notes:

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

General Information	Answer	Comments
2. A. The United States has ten generally accepted auditing standards (GAAS), including general standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. GAAS, which have been published in *Codification of Statements on Auditing Standards.*[1] Do GAAS exist in Canada?	Yes	2A—C. GAAS in Canada are very similar to those in the United States. Auditing standards and recommendations are codified in the *CICA Handbook.*
B. If so, are they published?	Yes	
C. If auditing standards exist in Canada, are they similar to U.S. standards?	Yes	
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The Auditing Standards Board of the CICA.	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 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)	Yes. CICA 6560.19	✓			
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)	✓	8A,B. The recommendation is that the auditor document matters that support the report. Many provincial institutes have stricter documentation requirements.
B. If so, do they include a written audit program outlining procedures to be performed? (AU sec. 339)	Yes. CICA 5145.06	✓	
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU sec. 319)	Yes. CICA 5205.11	✓	
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU sec. 325)	Yes. CICA Guideline	✓	
B. If so, is the communication documented? (AU sec. 325)	Yes. CICA Guideline	✓	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU sec. 350)	Yes	✓	
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU sec. 316)	Yes. CICA 5135	✓	

[1]American Institute of Certified Public Accountants. *Codification of Statements on Auditing Standards*, Chicago, Ill.: Commerce Clearing House, Inc., 1993.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
13. A. Does the auditor perform procedures to identify related-party transactions and their effects on the financial statements? (AU sec. 334)	Yes. CICA Guideline	✓			
B. If so, list the procedures.					13B. Canadian procedures are essentially the same as those of the United States.
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 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 5300.41 and 6550.06	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU sec. 560)	Yes. CICA 6550.06	✓			
16. The concept of "joint auditors" in certain countries (for example, U.K. and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms.	No		✓		16. The practice is unusual and is based on a legislated requirement for specialized industries such as banks.

This practice is not generally followed in the United States. Does the concept of "joint auditor" 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 6930.20		✓	17B. If the principal auditor is unable either to obtain sufficient evidence to rely on the other auditor or to perform other procedures, there should be a qualified opinion.
18. A. Is there a standard form of auditor's report? (AU sec. 508)	Yes. CICA 5400.26	✓		18A. See paragraph 30 of text.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU sec. 508)				18B. See paragraph 31 of text.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU sec. 508)	Yes	✓		19A,B. When the auditor concludes that the change in accounting principle or method of application has been accounted for and disclosed in accordance with GAAP, no reference is made in the opinion.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	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 the examination is used. (CICA 5405.06)
21. To express an *opinion*, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (Code of Professional Conduct, Rule 101 and its interpretations.)	Yes. ICAO Rule of Professional Conduct No. 204 and incorporating legislation	✓			21. All provincial institutes have similar rules.
22. Please describe any standards in Canada for which there are no corresponding U.S. standards.					22. None

APPENDIX E

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

General Information	Answer	Comments
1. Are there generally accepted accounting principles (GAAP) in Canada? If so, are they codified?	Yes	1. GAAP in Canada are codified in the *CICA Handbook*. See paragraphs 6 through 9 of text.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?	The Accounting Standards Board of the CICA.	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	No	✓			3. See paragraphs 43 through 45 of text.

Notes:

References are to sections in the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	No		✓		4. See paragraph 46 of text.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40) B. If so, define the basis.	Yes. CICA 1625		✓		5A,B. See paragraph 44 of text.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determined within reasonable limits? (N35)	Yes. CICA 3830.05	✓			
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5.)	Yes. CICA 3400.07	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5.)	Yes. CICA 1000.44	✓			
9. A. Are consolidated financial statements required when one company has controlling	Yes. CICA 1590.03 and 1590.16	✓			9A,B. See paragraphs 47 and 48 of text.

financial interest over another company? (C51)				
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	No. CICA 1590.08	✓		
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes		✓	10A,B. See paragraph 48 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 3050.06 and 3055.11	✓		11. See paragraphs 49 and 83 of text.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Yes. CICA 1580	✓		12. See paragraphs 50 and 51 of text.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. CICA 1580.79 and 1580.81	✓		
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50)	Yes. CICA 1580.21		✓	14A,B. See paragraph 51 of text.
B. If so, list the criteria.				
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 Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, is it amortized as a charge to income over the period estimated to be benefitted?	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	✓			
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.
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)					
a. Sales to outsiders and intersegment sales?	Yes. CICA 1700.33	✓			20*a–f.* Segment disclosure is not required if securities are not traded publicly and financial statements are not filed with a securities commission.
b. Operating profit or loss?	Yes. CICA 1700.33	✓			
c. Identifiable assets and related depreciation, depletion, and amortization expense?	Yes. CICA 1700.33	✓			
d. Capital expenditures?	Yes. CICA 1700.33	✓			
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓		20*e.* Not required but may be desirable.
f. Effect of a change in accounting principle?	Yes. CICA 1700.52		✓		
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	No			✓	
B. If so, list the disclosures required.					

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. For segregation only. CICA 1510.01	✓			22. A total is desirable but not required.
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. CICA 1510.01	✓			
B. If not, how are noncurrent assets defined?					
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. CICA 3020.10	✓			
B. If so, what is the basis (for example, percentage of sales, aging of receivables, etc.) for calculating the allowance?					24B. Normally, specific identification is used, but when that is impractical, other methods may be used.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount 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)	Yes	✓			
B. If not, how is inventory stated?					
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.* Overhead should only include costs "normally charged to production." Exceptions 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. The method used should result in the fairest matching of costs and revenues.
a. First-in, first-out (FIFO)?	Yes. CICA 3030.07–.09	✓		
b. Last-in, first-out (LIFO)?	Yes. CICA 3030.07–.09		✓	
c. Average cost?	Yes. CICA 3030.07–.09		✓	
B. Are the same methods permitted for tax purposes?	See Comment			28B. Yes, except LIFO, which can only be utilized if deemed 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. CICA 3060.31	✓		30A. Required for public companies.
B. If so, is an accumulated depreciation account used?	Yes. CICA 3060.58	✓		
31. Are disclosures made of: (D40)				
a. Depreciation expense for the period?	Yes. CICA 3060.60	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
b. Balances of major classes of depreciable assets?	Yes. CICA 3060.58	✓			
c. The methods used to compute depreciation for the major asset classes?	Yes. CICA 3060.58	✓			
d. Accumulated depreciation, either by major class of assets or in total?	Yes. CICA 3060.58	✓			31*d.* Disclosure by major class is required.
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 53 through 55 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 57 and 58 of text.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. For segregation only. CICA 1510.07	✓			34. A total is desirable but not required.
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No	✓			
B. If not, how are noncurrent liabilities defined?					35B. See paragraphs 59 and 60 of text.

36. For notes payable, is disclosure made of: (C32)				
a. Interest rates?	Yes. CICA 3210.01	✓		
b. Maturities?	Yes. CICA 3210.01	✓		
c. Assets pledged as collateral?	Yes. CICA 1500.12	✓		
d. Covenants to reduce debt?	Yes. CICA 3210.01	✓		
e. Minimum working capital requirements?	No		✓	
f. Dividend restrictions?	No		✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. CICA 3400.08	✓		
B. If so, what are the criteria for determining the method to be used?				37B. The method to be used is that which best matches revenue to the work completed.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. CICA 3450.16	✓		
B. Are such costs disclosed?	Yes. CICA 1520.03 and 3450.34	✓		
39. A. Are development costs charged to expense when incurred? (R50)	Yes. CICA 3450.19	✓		39A. See paragraphs 61 through 64 of text.
B. Are such costs disclosed?	Yes. CICA 1520.03 and 3450.34	✓		
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 reasonably be expected to recur in the foreseeable future.	Yes. CICA 3480.02	✓		40A. Canadian requirements are more restrictive. See paragraphs 65 and 66 of text.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
Do similar criteria for identifying extraordinary items exist in Canada? (I17)					
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. CICA 1520.03	✓			
42. A. Are disclosures required for—					
a. Extraordinary items? (I17)	Yes. CICA 3480	✓			
b. Material events or transactions not classified as extraordinary items? (I22)	Yes. CICA 1520.03	✓			
c. Disposal of a segment of a business? (I13)	Yes. CICA 3475	✓			
B. Indicate the financial statement presentation of these items.	See Comment				42B. Included in income or loss before discontinued operations and extraordinary items is separate disclosure of revenues, expenses, gains, or losses resulting from transactions or events that occur infrequently over several years or that do not typify normal business activities, followed by— • Results of discontinued operations.

				• Income or loss before extraordinary items. • Net income or loss for the period.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	Yes. CICA 3460.07	✓		43A,B. See paragraph 67 of text.
B. If so, do they include charges for costs assigned under the actuarial method used in years prior to the plan's inception?	Yes. CICA 3460.77	✓		
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. CICA 3460	✓		
B. If so, list them.				44B. See paragraph 68 of text.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. CICA 3470.13	✓		45A,B. Deferred taxes are provided for timing differences. See paragraph 69 of text.
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	No	✓		
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	No. CICA 3470.20		✓	46A,B. See paragraph 69 of text.
B. If not, on what basis?	See Comment			
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. CICA 3470	✓		47A,B. See paragraph 71 of text.
B. If so, list the requirements.	See Comment			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
48. A. Are operating losses reported on the income tax return allowed to be carried back to earlier periods? (I25)	Yes	✓			
B. If so, are the tax effects of a loss carryback included in the income in the period?	Yes. CICA 3470.40	✓			
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes	✓			
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?					49B. See paragraph 70 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	✓			
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. CICA 1650	✓			
52. A. Are translation adjustments reported separately? (F60)	Yes. CICA 1650	✓			52A,B,C. See paragraph 72 of text.
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. CICA 1650	✓			
C. Is there an analysis of the changes during the period in the component of stock-	Yes. CICA 1650	✓			

holders' equity relating to translation adjustments?				
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 72 of text.
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No. CICA 1650		✓	
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. CICA 1650	✓		
55. Is information disclosed about foreign currency restrictions? (F60)	See Comment	✓		55. Cash subject to restrictions that prevent its use for current purposes should be excluded from current assets. (CICA 1600.01) Any information required for fair presentation should be disclosed. (CICA 1500.05)
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. CICA 3820.06 and 3820.10	✓		
57. Please list any standards for Canada for which there are no corresponding U.S. standards.				57. None.

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