



Focus on specifics in IFRS training

By **KARINE BENZACAR**

All professional accountants, regardless of the area in which they are practising, need to keep up to date with the developments in the field. International Financial Reporting Standards (IFRS) represent one of the most dramatic changes the accounting profession has witnessed in a long time.

There are a large number of seminars, conferences, and courses available to accountants and the list will only get longer as the Jan. 1, 2011 deadline approaches. How does one choose among the seminars? Part of the answer, as with any other purchase, is cost, but that is rarely a deciding factor. These days, everyone is busy.

There is no greater disappointment than spending a day or two sitting in a class, only to find out that time could have been more effectively spent doing something else.

Too many people register for a course just for the sake of taking some training without giving much thought to the specifics. In order to get the most out of an IFRS course, the first step for any participant is to determine what he or she wants to learn. The differences between IFRS and Canadian GAAP are so substantial that it is not realistic to expect to sit through one or two days of training and become an IFRS expert.

After all, it took more than four years of university education to learn Canadian GAAP. How would it be possible to learn the equivalent international standards in just a few days?

The more productive route is to first determine which areas of international GAAP you want to focus on and then find the course that offers the most selection in those areas.

If you are a novice to IFRS and want to understand some of the key differences between IFRS and Canadian GAAP, then you will want to look for a course that covers at least the following:

Fixed assets

Under Canadian GAAP, fixed assets are accounted for at historical cost and then depreciated regularly. Under IFRS, there is a choice of accounting method. Either a company can choose a cost model, which is very similar at the conceptual level to Canadian GAAP, or the company can use the revaluation model, a model which regularly



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revalues assets to their fair value.

Impairments

Impairments are calculated differently under IFRS and Canadian GAAP. In Canada, an asset is currently considered impaired when its book value is less than the future cash flows the asset expects to generate. Under IFRS, an asset is consid-

Impairment reversals

Under Canadian GAAP, once an asset is written down, its value cannot be increased, even if the conditions which caused the impairment reverse themselves. Under IFRS, the reverse is true.

Not only are impairment reversals allowed, they are mandatory, should the conditions warrant them.

to isolate the cash flows of a particular asset from those of other assets.

Usually in a business, assets work closely together to generate cash flows and it is hard to isolate the cash flows which come solely from one asset.

Where assets cannot be tested individually for impairment, CGUs should be tested for impairment and then the assets

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ered impaired if its carrying value is higher than its recoverable amount.

The recoverable amount is defined as the greater of the asset's expected selling price (less costs to dispose) and its value in use, which is defined as the present value of future cash flows expected from the asset.

By analyzing the definition of impairment, it is easy to see that impairments will be more likely under IFRS than under Canadian GAAP.

Cash generating units

IFRS has a concept called a cash generating unit (CGU), a term which does not exist in Canadian GAAP. The standards define a CGU as "the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets" (IAS 36).

The concept of a CGU is used for impairment testing. In some cases, it may be difficult

related to the purchases of assets. Canadian GAAP allows firms to either expense or capitalize the interest.

Many firms choose to expense it immediately. IFRS requires companies to capitalize the interest and in addition, has much more detailed guidance than Canadian GAAP on how to do so.

Financial statement presentation

Last but certainly not least, IFRS has a different financial statement presentation than Canadian GAAP. In addition, the regulators recently issued a discussion paper which proposes to drastically change the look and feel of the statements from their current state.

At first glance, a balance sheet doesn't look like it balances and looks more like a cash flow statement. Of course, when one looks at the details, it is easy to see that the balance sheet still balances, although not at all in the same format that Canadians are used to seeing.

Anyone who would enjoy seeing assets balancing to liabilities plus equity on a balance sheet will need to change their expectations. There are also new statements required under IFRS. For example, the statement of retained earnings is replaced by a more detailed statement of changes in equity.

In addition, there is a new statement required in the notes to reconcile net income to cash flow.

The above topics present some of the key differences between the two accounting methodologies that anyone seeking an understanding of IFRS should look for in a course. However, the list above is certainly not comprehensive and there are many other differences.

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Finally, there are specific issues to various industries, such as oil and gas, utilities, and insurance. The first step in understanding IFRS is to understand the basics. Once that is done, the next step is to understand the particulars as they relate to one's specific industry.

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written down proportionately.

Interest capitalization

There are some small differences between interest expenses