



Dbriefs U

Supplemental Material

International Financial Reporting Standards — The Road Ahead for Accounting and Tax

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About the Supplemental Material

Each Dbriefs U webcast is accompanied by teaching material including discussion or homework questions, a learning activity, and related resources. Visit the Dbriefs U Faculty Resources Web site to download this material. For access to the site and more information, contact dbriefsu@deloitte.com.

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Discussion/Homework Questions

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What reasons do you think a company would have for adopting or not adopting IFRS?

How do you think a conversion to IFRS from U.S. GAAP will impact you and other young professionals? How might the skills needed by accountants change?

As was discussed in the presentation, accounting for income taxes is a complex area, do you think a move to IAS 12 from ASC 740 will create more risk for companies/ accounting firms? Why?

Activity

Overview

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Understanding IFRS and GAAP/IFRS reconciliations

Length: 30 minutes

Type: Individual

Materials: Internet connection, activity sheet

Learning Objectives:

- To gain a better understanding of IFRS
- To gain exposure to financial statements providing reconciliation between GAAP and IFRS

Activity

Understanding IFRS and GAAP/IFRS reconciliations

To request the solutions for this material, email dbriefsu@deloitte.com.

1. Connect to the SEC EDGAR company search tool (www.sec.gov). Using an advanced search locate 2009 Form 20-Fs. Review your search results to identify five Form 20-F filers that use IFRS (Note: not all 20-F filers use IFRS). Provide the company name and the internet link to the specific annual filing for each company.
2. Using the example financial statement disclosure provided, answer the following questions:
 - a. What two sets of accounting principles are reconciled?
 - b. What are the 3 largest differences between in the reconciliation of earnings for 200Z?
 - c. What is the amount of the difference related to income tax in the reconciliation of earnings?
 - d. What are the key components of the difference related to income tax?
3. Connect to the IASB website (<http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>). Locate the current projects workplan and answer the following questions:
 - a. What is the status of the project related to income taxes?
 - b. What is the status of the 2009 income taxes exposure draft?

Financial statement details for exercise #2 above

Although taken directly from a public filing of a Canadian company converting from Canadian GAAP to IFRS, information regarding the registrant has been removed. The example is to be used for discussion purposes only.

Voluntary Reconciliation from Canadian GAAP to IFRS

We have provided a reconciliation of shareholders' equity and net earnings from Canadian GAAP to IFRS as of and for the three years ended December 31, 200Z, 200Y and 200X, respectively. While this reconciliation does not represent our official adoption of IFRS, it provides an indication of the major differences identified to date, relative to our historical financial statements.

In preparing the Voluntary Reconciliation, we applied the principles and elections of IFRS 1, with a transition date of January 1, 200A, consistent with those assumed in its Business Acquisition Report dated May 15, 200Z and also, consistent with the elections made regarding the optional exemptions under IFRS 1.

(millions of U.S. dollars, except per share amounts)	Year ended December 31		
	200Z	200Y	200X
Net earnings under Canadian GAAP	1,405	4,004	1,120
Differences in GAAP increasing (decreasing) reported earnings:			
1. Business combinations	(117)	(2)	–
2. Employee benefits	37	(5)	67
3. Stock-based compensation	(23)	3	15
4. Impairments	(8)	31	(31)
5. Derivative instruments and hedging activities	1	(3)	3
6. Cumulative translation adjustment	(3)	–	–
7. Minority interest in equity of consolidated subsidiary	17	–	–
8. Income taxes	23	(39)	(18)
Net earnings under IFRS	1,332	3,989	1,156
Basic earnings per share	\$ 1.70	\$ 6.21	\$ 1.79
Diluted earnings per share	\$ 1.69	\$ 6.18	\$ 1.78

(millions of U.S. dollars)	As at December 31		
	200Z	200Y	200X
Shareholders' equity under Canadian GAAP	20,126	13,571	10,481
Differences increasing (decreasing) reported shareholders' equity:			
1. Business combinations	(1,159)	(42)	(40)
2. Employee benefits	(763)	(319)	(487)
3. Stock-based compensation	(49)	(18)	(12)
4. Impairments	1	–	(31)
5. Derivative instruments and hedging activities	10	(2)	1
6. Minority interest in equity of consolidated subsidiary	72	–	
7. Sale of minority interest in a consolidated subsidiary	96	–	–
8. Share repurchase obligation	–	–	(24)
9. Income taxes	223	94	175
Shareholders' equity under IFRS	18,557	13,284	10,063

The following describes the differences presented in the reconciliation of net earnings and shareholders' equity.

1. Business Combinations

ACQUISITION COST

Canadian GAAP – Shares issued as consideration are measured at their market price a few days before and after the date the parties reach an agreement on the purchase price and proposed transaction is announced.

IFRS – Shares issued as consideration are measured at their market price on the acquisition closing date.

CONTINGENT CONSIDERATION

Canadian GAAP – Contingent consideration is recognized as part of the cost of an acquisition, but only at the point when the amount can be reasonably estimated and the outcome is determined beyond reasonable doubt.

IFRS – Contingent consideration is recognized as part of the cost of an acquisition at the date of acquisition, if it is probable that the contingency will be met and the amount can be reliably measured at fair value. Changes to the initial amount recorded are recognized through earnings and discounts on future cash payments are accreted through interest expense.

ACQUISITION RELATED COSTS

Canadian GAAP – Costs of the acquirer such as (1) exiting an activity, (2) involuntarily terminating an employee, or (3) relocating employees of an acquired company are recognized as part of the cost of an acquisition.

IFRS – These costs are expensed, unless they are part of an existing restructuring by the acquiree, in which case they may be recognized as part of the cost of an acquisition.

ADJUSTMENTS TO PROVISIONAL PURCHASE PRICE ALLOCATION

Canadian GAAP – Adjustments related to the finalization of initial purchase price allocations are changes in accounting estimates and accounted for prospectively from the period in which the purchase price allocation was finalized.

IFRS – Adjustments related to the finalization of initial purchase price allocations are applied retrospectively, as if they occurred on the acquisition date. Accordingly, prior period amounts are restated to reflect the final purchase price allocation, including any changes in amortization that become necessary for prior periods based on the final allocations.

2. Employee Benefits

MEASUREMENT DATE

Canadian GAAP – The measurement date of defined benefit obligations and plan assets may be up to three months prior to the date of the financial statements.

IFRS – The measurement date generally coincides with the date of the financial statements, because the measurement date must not result in a materially different outcome than if the balance sheet date had been used.

PAST SERVICE COST

Canadian GAAP – Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees expected to benefit from the amendment.

IFRS – These costs are amortized on a straight-line basis over the average period until the benefits become vested. To the extent that the amended benefits are already vested, past service costs are recognized immediately.

ACTUARIAL GAINS AND LOSSES

Canadian GAAP – Actuarial gains and losses are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a “corridor” approach. Unrecognized actuarial gains and losses below the corridor are deferred.

IFRS – We have elected an accounting policy of recognizing actuarial gains and losses immediately through equity.

FAIR VALUE OF PLAN ASSETS

Canadian GAAP – A market-related fair value is used for purposes of calculating expected returns on plan assets with changes in the fair value of plan assets recognized over a five-year period.

IFRS – Plan assets are measured at fair value and fair value is used to determine the expected return on plan assets.

3. Stock-based Compensation

RECOGNITION OF EXPENSE

Canadian GAAP – The fair value of a stock-based award with graded vesting is recognized on a straight-line basis over the vesting period.

IFRS – Each tranche of an award is considered a separate grant with a different vesting date and fair value, and each is accounted for separately.

FORFEITURES

Canadian GAAP – Forfeitures of awards may be recognized as they occur.

IFRS – Forfeiture estimates are recognized in the current period and revised for actual experience in subsequent periods.

CASH-SETTLED SHARE-BASED PAYMENTS

Canadian GAAP – The liability for cash-settled share-based payments is accrued based upon the intrinsic value of the award.

IFRS – The liability for cash-settled share-based awards is measured at the fair value of vested awards, using an option pricing model. Changes in fair value are recognized in the period of change.

MEASUREMENT OF DEFERRED TAX ASSETS

Canadian GAAP – Deferred tax assets for share-based awards are based upon the cumulative amount of compensation cost recognized.

IFRS – Deferred tax assets for share-based awards are based upon the estimated tax deduction, which is generally the intrinsic value of the vested award at the balance sheet date. If the estimated deduction exceeds the

cumulative compensation expense, the excess is recognized in equity. If no tax deduction is anticipated because the fair value of the shares has declined, then the deferred tax asset is reversed to earnings or equity as appropriate, depending on how the asset was originally recorded.

EMPLOYER TAXES

Canadian GAAP – Employer taxes on share-based compensation are recognized upon exercise of the instrument.

IFRS – Employer taxes on share-based compensation are recognized over the vesting period based upon the fair value of the awards at each balance sheet date.

4. Impairments

ASSETS HELD FOR SALE

Canadian GAAP – Assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell, where the carrying amount for purposes of determining impairment includes cumulative translation adjustments.

IFRS – Assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell, where the carrying amount excludes cumulative translation adjustments. Upon sale of the assets, the amount of the cumulative translation adjustment is included in the determination of the gain or loss on sale.

REVERSAL OF IMPAIRMENTS

Canadian GAAP – Reversal of impairment loss is not permitted.

IFRS – Reversal of impairment loss is required for assets other than goodwill if certain criteria are met.

RECOVERABLE AMOUNT

Canadian GAAP – A two-step approach is used to measure impairment. In step 1, a recoverability test is performed by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is triggered, and the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value.

IFRS – An asset is impaired if the recoverable amount is lower than the asset's carrying amount. The recoverable amount is defined as the higher of the asset's fair value less cost to sell and its value-in-use. The value-in-use calculation involves discounting the expected future cash flows to be generated by the asset to their net present value.

5. Financial Instruments

HEDGE ACCOUNTING

Canadian GAAP – Effectiveness for compound derivative instruments that hedge currency and interest rate risk is assumed provided the critical terms of the derivative instrument are consistent with the hedged instrument.

IFRS – Effectiveness for compound derivative instruments must be assessed retrospectively and prospectively each reporting period. As a result, certain hedge relationships had to be prospectively discontinued as of the transition date of adoption of IAS 32 and IAS 39.

VALUATION OF FINANCIAL INSTRUMENTS REFLECTING CREDIT RISK

Canadian GAAP – Current Canadian GAAP does not set out specific requirements for the determination and measurement of credit risk in determining the fair values of financial instruments. A new pronouncement related to the consideration of credit risk has been issued and we will be adopting the applicable pronouncement effective the first quarter of 200Z.

IFRS – IFRS contains specific guidance regarding the determination and measurement of credit risk and such guidance is applicable to us for 200Z.

6. Cumulative Translation Adjustment

Under both Canadian GAAP and IFRS, foreign currency gains or losses on intercompany loans that are deemed to be part of a net investment in a subsidiary are reflected within CTA in shareholders' equity. Upon repayment of such loans, any related deferred foreign currency gain or loss is reclassified from CTA into earnings. However, these amounts will differ due to the IFRS 1 election to reset the CTA balance to zero at transition date.

7. Minority Interest

Canadian GAAP – Minority interest in the equity of a consolidated subsidiary is classified as a separate balance sheet component between liabilities and equity. Minority interest in the profit or loss of a consolidated subsidiary is presented as a component of earnings.

IFRS – Minority interest in equity of a consolidated subsidiary is classified as a component of equity but separate from the equity of the parent. Minority interest in the profit or loss of a consolidated affiliate is presented as an allocation of earnings.

8. Sale of Minority Interest in a Consolidated Subsidiary

Canadian GAAP – Gains associated with the sale of certain equity interests were deferred until the fair value of all related future performance obligations can be reliably measured.

IFRS – IFRS provides greater flexibility in the determination of fair value and allocation of consideration to multiple elements resulting in the ability to measure and recognize the gain on sale related to the sale of a minority interest. We elected a policy in which transactions with minority shareholders are considered transactions with an equity participant. Accordingly, the gain has been recognized in equity.

9. Share Repurchase Obligation

Canadian GAAP – An obligation for an entity to purchase its own equity instruments is accounted for as an equity transaction upon completion of each purchase.

IFRS – A liability must be recognized currently through equity for an obligation when the entity has no discretion to cancel its instructions to repurchase shares. Subsequent adjustments to the present value of the liability are reflected within earnings. If the contract expires without delivery, the liability is reversed against equity.

10. Income Taxes

INTERCOMPANY TRANSACTIONS

Canadian GAAP – The recognition of deferred tax for a temporary difference arising from intercompany transactions is prohibited. Further, taxes paid or recovered as a result of an intercompany asset transfer are recorded as an asset or liability and recognized as tax expense when the asset leaves the group or is otherwise utilized.

IFRS – Deferred taxes are recognized for temporary differences arising from intercompany transactions. Taxes paid or recovered as a result of an intercompany asset transfer are recognized in the period incurred.

BUSINESS COMBINATIONS: DEFERRED TAX ASSETS NOT PREVIOUSLY RECOGNIZED

Canadian GAAP – Previously unrecognized income tax assets of an acquired company are recognized as part of the cost of the acquisition when such assets are more likely than not to be realized as a result of a business combination. If an unrecognized deferred tax asset becomes realizable subsequent to the acquisition date, such benefit will also be recognized through goodwill. The acquirer recognizes its own tax benefits which become realizable as a result of the acquisition as part of the cost of the acquisition.

IFRS – Previously unrecognized income tax assets of an acquired company are recognized as part of the cost of the acquisition if realization is more likely than not as a result of the business combination. If an unrecognized deferred tax asset becomes realizable subsequent to the acquisition date, the tax benefit is recognized through earnings, and a corresponding amount of goodwill is recognized as an operating expense. The acquirer's tax benefits, which become realizable as a result of the acquisition, are recognized through earnings.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAX POSITIONS

Canadian GAAP – The amount of reserves established for uncertain tax positions is determined by reference to a two step process involving the determination of whether it is more-likely-than-not that an uncertain tax position will

be sustained upon examination. Where it is determined that the position meets the more-likely-than-not criteria, the amount of benefit is measured using the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

IFRS – The measurement of the benefit is based on a qualitative assessment of all factors to determine a best estimate of the ultimate amount of benefit that will be realized.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES IN BUSINESS COMBINATIONS

Canadian GAAP – Changes to income tax contingencies relating to pre-acquisition periods are adjusted through the purchase price allocation, first reducing goodwill, intangible assets associated with the business combination, and only after exhausting those amounts, reducing income tax expense.

IFRS – Changes to pre-acquisition tax uncertainties beyond twelve months of the acquisition date are recorded to the income statement.

INCOME TAX EFFECT OF OTHER RECONCILING DIFFERENCES BETWEEN CANADIAN GAAP AND IFRS

Differences from income taxes include the deferred tax effect on earnings of pre-tax differences between Canadian GAAP and IFRS described above.

Related Resources

To access these materials, visit www.deloitte.com/us/dbriefsu.

A closer look at share-based payment plans and IFRS Accounting differences that matter
(Deloitte publication)

International Financial Reporting Standards for U.S. Companies: Tax Implications of an Accelerating Global Trend, *The Tax Executive* (Fall 2008)

IASPlus.com (Deloitte Global IFRS Website)

Webcast Poll Questions

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Question

How does IFRS differ from U.S. GAAP?

- More focused on objectives and principles and less reliant on detailed rules
- Standards are promulgated by the London-based International Accounting Standards Board (IASB)
- Focuses financial reporting on “transparency”
- Fewer specialized standards for specific industries
- All of the above

Question

A conversion to IFRS will have what impact on U.S. taxable income?

- Increase taxable income
- Decrease taxable income
- Taxable income will not change due to a change in book accounting
- It depends on the company and the specific accounting differences and existing tax accounting methods the company uses

Question

ASC 740 and IAS 12 are:

- Identical in approach and details
- Identical in the details but the approach is different
- Same approach but different in certain detailed areas such as share-based payments
- Completely different, there are no similarities in approach or details

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