



THE PRACTITIONER'S VIEW

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ACCOUNTING STANDARDS

EIC 122 – Balance Sheet Classification of Callable Debt Obligations

This EIC is a “hot” topic across the country since it applies to many clients and is already proving to be a contentious presentation issue between clients and practitioners. Although the EIC was mentioned in two previous issues of The Practitioner’s View, the following article, reprinted from News ‘N Views, ICABC February 2003), provides an in-depth discussion of the topic.

On October 31 2001, The Emerging Issues Committee issued EIC 122 - *Balance Sheet Classification Of Callable Debt Obligations and Debt Obligations Expected to Be Refinanced*. This EIC applies to financial statements for periods beginning on or after January 1, 2002. Members and firms are encouraged to read EIC 122 carefully, with particular attention to the examples in the Appendix.

“Term Demand Loans”

Many closely-held private businesses obtain a great deal of their financing (including term financing) through one of the chartered banks. Term financing from the chartered banks is very frequently in the form of a demand loan, with agreed repayment terms. The loan agreements for such loans usually contain debt covenants and collateral so that the loan is in economic substance a term loan with a floating interest rate. The agreements usually also contain a unilateral demand feature. Members should closely examine the loan documentation to ensure they clearly understand the terms of the loan. We are advised that a good source of information about the loan is the offer letter from the bank.

Where a unilateral demand feature is in place, EIC 122 requires that the loan in its entirety be classified as a current liability, notwithstanding the economic substance of the financing and the intention of the parties as evidenced by the loan agreement.

Long-Term Debt - Reclassification

Many long-term debt obligations are written on a term basis (frequently five years) such that the entire obligation

becomes due at the end of the agreed term. In substance, most of these obligations are renewed under the same terms and conditions, with the interest rate adjusted to prevailing market rates. The term nature of the obligation is most often a “re-pricing point” for the loan.

The EIC requires that when the long-term debt falls due (term feature) within the next fiscal year, the entire long-term debt obligation must be classified as a current liability, unless there is an irrevocable commitment from the lender to renew the debt on a long-term basis.

We understand that many lenders will only enter into a commitment 90 days before the due date; thus many borrowers with long-term debt falling due late in their fiscal year will be required to reclassify their entire debt as current on each anniversary of the due date.

GAAP Qualification?

Discussions with practitioners have revealed that many clients affected by these changes may well be very reluctant to reflect them in their financial statements. However, as the new provision is now part of GAAP, the only alternative will be to qualify the audit or review engagement report for not complying with GAAP.

As such qualifications could become frequent, the Practice Advisory Services department of the BC Institute has prepared some sample qualifications of audit or review engagement reports reflecting non-compliance with GAAP in respect of (a) not classifying “demand loans with agreed repayment terms” as current liabilities, and (2) not classifying long-term debt becoming due in the next year as a current liability.

These sample reports (see appendices) are provided as information only and members will need to exercise their professional judgment if or how to use them.

Goodwill Under Differential Reporting

(This article has been reprinted from News ‘N Views, ICABC February 2003)

Members will be aware of the recent significant changes to CICA Handbook Section 3062 - Goodwill and Other Intangible Assets - which became effective for fiscal years beginning on or after January 1, 2002. There was a deferral of the effective date to January 1, 2003 for enterprises that qualify for Differential Reporting.

Section 3062 requires that Goodwill and Intangible Assets with an Indefinite Life (hereinafter referred to as “Goodwill”) not be amortized but tested for impairment of value on an annual basis unless specified conditions are met. It also mandates that Goodwill be tested for impairment in the first

fiscal period where the new section would apply. This requirement effectively results in a "base line" for future impairment testing, including appropriate methodology. Paragraph 3062.74 provides that an impairment loss arising from the first application of Section 3062 may be charged to opening retained earnings without restatement of prior periods.

In October 2002, Section 3062 was amended to add new paragraphs 55 to 62 regarding Differential Reporting options, and re-numbering former paragraphs 55 to 69. New paragraph 3062.55 permits "*An enterprise that qualifies under DIFFERENTIAL REPORTING may... elect to test goodwill for impairment only when an event or circumstance occurs that indicates that the fair value... may be less than its carrying amount, whereas goodwill would otherwise be tested for impairment on an annual basis ...*" Paragraph 3062.56 lists some examples of events and circumstances which may trigger a goodwill impairment test.

Thus, enterprises that qualify for differential reporting may elect to avoid the time and expense of performing goodwill impairment testing. However, there are some consequences of that decision:

- (i) the enterprise must disclose that goodwill impairment testing has not been performed, and must maintain that disclosure in subsequent years until the impairment testing has occurred; and
- (ii) the enterprise is precluded from applying the provision in paragraph 3062.74 to an impairment loss recognized in a subsequent year and would include it in the income statement in its entirety.

APPLYING DIFFERENTIAL REPORTING

Practitioners considering differential reporting options this year will find it worthwhile to refer to the January 2003 issue of *Focus on PEM*, the Professional Engagement Manual's newsletter. It covers the various financial statement presentation options and includes sample notes to the financial statements, sample owner's consent letter as well as engagement report wording for audit and review engagements.

COOPERATIVE HOUSING: CHANGES TO REPORTING REQUIREMENTS

On November 28, 2002, the Department of Community Services Housing Services held a conference to review changes to reporting requirements. Arising from this session, a working group of CAs met with the Department in mid-January to discuss various reporting issues. A standard financial reporting package has been developed and issued to housing cooperatives and their auditors.

Practitioners with questions or concerns related to financial reporting for this type of organization may contact Wenda

Bennett at wbennett@icans.ns.ca or 425-3291 for further information.

TAX SEASON NEWS

(The following tax articles have been reprinted from News 'N Views, ICABC February 2003)

T4 Tips for Practitioners

For members preparing clients' T4s, or even their own, CCRA has provided a few pointers:

- Only one copy of the T4 summary and slips is required - sending in a duplicate return after the original has been filed may result in posting errors on your account.
- In February 2003, CCRA will start accepting cancellations and amendments in electronic format for information slips. Information on the conditions to be met for electronic filing and how to submit these types of amendments can be found on their website at www.ccra.gc.ca/t4internet and in the Employers' Guide Filing the T4 Slip and Summary Form.
- If, after filing your T4 return, you determine that you overpaid the CPP and/or EI for one or several employees, please do not try to correct this by amending the T4 slip(s) to adjust the employees deductions. All that is required is a letter requesting the employers' overpayment or the submission of a PD24 application.
- If you are unsure of an individual's employment status or whether the employment is non-arms length, a ruling should be requested through your local Tax Services Office.
- If CPP contributions or EI premiums have been deducted from a worker in error, please complete form PD24, Application for A Refund of Overdeducted CPP Contributions or EI Premiums. Please refer to page 21 of the Employer's Guide to Payroll Deductions for further information.

T1 Tax Tips for Practitioners

As practitioners prepare for the upcoming tax season, we wish to share with you again some of the processing tips from CCRA to save both you and your clients time and money. These tips, along with some for corporate tax returns, are available for download at the Institute's website at www.icans.ns.ca.

General

- Affix the client's personalized label when submitting computer-prepared returns where there is no change of address or name. This speeds up processing when the return goes through the initial data entry stages.
- Attach only the relevant schedules as any additional paper causes delays in handling at the mail and data entry stages.

Schedules, Deductions, and Credits

- Enter on Line 230 the total of all spousal and child support payments, and enter on Line 220 the deductible amount only.

- Attach a detailed listing of amounts when claiming charitable donations or medical expenses and identify any amounts carried-forward.
- Provide a breakdown and the reason for travel if filing medical expense travel claims.
- Attach a copy of the form T1-M when claiming moving expenses.
- If transferring tuition and education credits from a child or spouse, ensure the applicable forms are signed, complete Schedule 11, and include the students' SIN if available.
- The local tax office reviews all new Disability Tax Credit claims and any previously allowed on a temporary basis only, which are due for follow-up review. The T2201 claim form is reviewed for completeness and a determination is made whether the claim qualifies. There is a referral process where files can be forwarded to a medical advisory group in Ottawa. If a disability claim has been allowed in the prior year, a copy of the T2201 is not required in the subsequent years' returns.

Payments

- The most common causes of misallocated payments are:
 - confusion between tax year and calendar year;
 - monthly payments for arrears being identified as installment payments; and
 - incorrect remittance form and/or incomplete client information. Identify payments accompanying request for adjustment with the correct tax year.
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Others

- Include a copy of the death certificate when filing deceased returns.
- Complete a T1 Adjustment Request and submit any applicable revised schedules when an adjustment is required. Do not file an amended T1, which will only delay processing of the adjustment.
- Send adjustment requests under separate cover from unassessed returns to avoid delays in processing the initial assessment.
- On the T1013 Consent form, specify if it is the firm or an individual being given authorization.
- Accompany a request for a review under the Fairness Legislation with specific details and any supporting documentation.

Update to CCRA Efiling

To encourage electronic filing of tax returns, CCRA has updated Efilting and asked us to let you know about the following new features:

- Electronic filers can either file returns one at a time, receiving instant acknowledgement, or file returns in batches of up to 60 at once receiving acknowledgement a few hours later. As an added timesaver, electronic filers will be able to file a batch of return without being required

to retrieve outstanding acknowledgements.

- Preparers can now make on-line name, address, and direct deposit changes, and indicate whether or not you want to be the recipient of client contact letters.
- The "System for Electronic Notification" (SEND) service has been introduced to provide information about your clients' outstanding balance, his/her need to repay a student loan, or their participation in the Home Buyers Plan, *before* filing their return. All electronic filers have access to the SEND service providing they have proper client authorization on file.

To become an Electronic Filer, or to get the latest CCRA tax filing news and updates, visit their website at www.cra.gc.ca/eservices/tax/preparers. The February 2003 issue of CGA Magazine included an article on how more tax professionals could be taking advantage of the electronic filing services offered by CCRA. See www.cga-canada.org/eng/magazine.

FREE ELECTRONIC NEWSLETTER

If you are looking for an informative electronic newsletter geared towards accounting and tax professionals, you may wish to visit CCH Canadian's website at www.cch.ca to sign up for their free *eMonthly* newsletter. Their topics of interest include Tax, Financial, Legal, and Human Resources.

CCRA CONTACT LISTS

We thank the Halifax Tax Services Office of CCRA for again this year providing the enclosed Senior Management Contact List for our members, updated to March 2003.

QUESTIONS FROM THIRD PARTIES

As business advisors, members are sometimes asked by bankers or other third parties to provide information directly to the third party. Members are aware of their duty of confidentiality to clients; however, staff are sometimes not so informed. We urge you to periodically remind your staff that professional and legal requirements preclude the firm from disclosing any information about a client's affairs without the knowledge or consent of that client.

A similar situation where your duty of confidentiality comes into play is when minority or previously silent shareholders suddenly demand financial information from you. Frequent triggers for such requests are marital breakups or personal disagreements. Members are reminded that your engagement is usually with the company and in such a circumstance, requests for information should be directed to the company's corporate secretary.

Members should also exercise caution even when dealing with situations that appear to be routine and totally innocent. The Conduct Review Committee recently had to deal with a complaint which involved a CA who turned over a long-standing client's information and records to her two

sons who came to his office to pick it up on their mother's behalf. The client filed a complaint, as she had not authorized her sons to do so, nor directed the CA to provide them with such information. While there were complicating factors which were in evidence in this instance, the CA had inadvertently breached the Rules of Conduct even though he was complying with what he thought was a fairly mundane request and in the best interests of the client.

Finally, if a CCRA auditor requests your working paper files during an audit of your client, members are reminded that those files are your property. You are not obliged to turn them over to CCRA without proper legal processes. To discourage what many practitioners suspect are "fishing expeditions", most members will politely decline the auditor's request, ask what information is specifically needed and then respond accordingly. With the client's agreement, most reasonable requests can be dealt with routinely.

FORM 20 – REPORTABLE MATTERS

You are reminded that the *Barristers' Society's "Engagement for Accountants"*, a guideline for completion of Form 20, Part B, requires that all exceptions, regardless of materiality, be reported by the CA.

The Professional Conduct Committee is presently dealing with two files for which the accountants failed to disclose reportable matters pursuant to the *Barristers and Solicitors Act or Regulations of the Nova Scotia Barristers Society*.

INDEPENDENCE & TRUSTS

Practitioners are occasionally asked by their clients to serve as trustee of a family trust that in turn owns (or holds a material interest in) the entity they are reporting on. A member may not be in compliance with the Rules of Professional Conduct regarding objectivity if they find themselves in this situation and should refer to Council Interpretation 204/3 (1) for guidance or contact Wenda Bennett at wbennett@icans.ns.ca.

WATCH FOR NEW RULES ON FEE QUOTATIONS, ADVERTISING AND SOLICITATION

Council has recently approved amendments to Rules 214, 217 and 301 governing fee quotations, advertising and solicitation, which will be brought forward for approval by members at the annual general meeting in June. These rules were reviewed on a national basis by the Ethics Standards Harmonization Committee, following a challenge under the Charter of Rights and Freedoms. The proposed revisions are necessary to ensure that the rules continue to meet the needs of the profession in today's practice environment and to comply with the Charter.

Members should be aware that although some jurisdictions have already adopted these changes, they are not effective for our members prior to being ratified at the annual general meeting.

EMAIL COMMUNICATION SECURITY

With its convenience and speed, it is no wonder email communication is so popular. It is almost impossible to find practitioners who do not use email in some way to service their clients. However, members are reminded that email is not secured. It is no different than sending a postcard through the post. As well, there is the risk that any attachments may be modified without your authorization or knowledge. To learn more about the risks involved and ways to protect your clients and yourselves, we suggest you check out some of the articles on security and privacy at www.securitypointer.com.

PD NEWS

There is a full schedule of courses on offer this spring. Two new courses would be particularly valuable for CAs starting a practice:

Taking Care of Business for Sole Practitioners

This is a full day hands-on interactive workshop, offered June 2. Areas covered by the program include working on your own, practice management, developing an effective business strategy, as well as business development and marketing.

How to Build Client Relationships and Grow Your Practice

This half-day seminar, offered June 3, is designed to assist CAs in public practice to develop the skills and confidence necessary to be successful at business development. The program identifies what clients want from service providers, how to build trust and effectively maintain and reinforce key relationships as well as the most effective ways to create new relationships that form the base for new business.

Courses for Spring PD 2003 will be available for viewing in April on our website at www.icans.ns.ca.

SUGGESTIONS FOR THE NEXT ISSUE?

Contact **Wenda Bennett, CA** at the Institute wbennett@icans.ns.ca or (902) 425-3291.

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