

Analysis of certain key Canadian GAAP-IFRS differences

IFRS requirements

How Canadian GAAP differs

IAS 1 – Presentation of financial statements

Subtotals

Additional subtotals or line items should be presented on the face of the income statement when they are relevant to an understanding of an entity's financial performance.

When including such items, companies should:

- clearly convey the relevance of the subtotal to the readers of the financial statements;
- reorder the line items to adequately explain the particular element of financial performance.

When reporting the results of operating activities (i.e., operating income) or similar line items, entities should ensure that the amount disclosed is representative of activities that would normally be regarded as operating, including all items of an operating nature (e.g., inventory writedowns, restructuring charges and share-based payments).

Entities reporting under Canadian GAAP tend to limit the number of subtotals.

Additional lines on the face of financial statements increase transparency but companies need to ensure that they clearly follow the guidance under IAS 1, particularly as it relates to the operating income subtotal.

Expense presentation

Under IAS 1, expenses can be presented according to either their nature or their function. A company that chooses to present an income statement by function is required to provide additional disclosures on the nature of the expenses within a specific function, "including depreciation and amortization expense and employee benefits expense."

Canadian GAAP does not discuss expense presentation. Many Canadian companies present their expenses by function. These companies have to ensure that they disclose the required information on the nature of expenses in the notes to the financial statements.

Although including those additional disclosures in other notes to the financial statements would satisfy the IAS 1 requirement for greater transparency, companies should consider including those disclosures in a single note.

For an illustration of IAS 1 requirements see the consolidated income statements of Suez in the 2007 annual report (page 198), which present:

- *expenses by nature (generally Canadian companies present the expenses by function)*
- *three subtotals:*
 1. *current operating income (further details are provided in note 4 on pages 227 and 228; see also accounting policy note 1.4.17);*
 2. *income from operating activities (further details are provided in note 5 on pages 229 to 231); and*
 3. *net income.*

In the statements of cash flows (page 199), Suez presents a subtotal in the cash flow from operating activities section.

Note that the income statement format will change as required by IAS 1 (revised in September 2007), which is effective on or after January 1, 2009. Under this revised standard, the presentation of the income statement will include components of "other comprehensive income," which is similar to Canadian GAAP except that, under IFRS, only one of the following two presentations is allowed:

- *income statement and other comprehensive income items together in a single statement of comprehensive income with subtotals;*
- *income statement, followed by a separate statement of comprehensive income.*