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Subject Financial Reporting by Private Enterprises

Two general comments regarding the Income Statement Focus of IFRS that I believe distorts the usefulness of Financial Statements for the Reader/Investor, in particularly for Private Enterprises;

Where profit cannot be reasonably estimated in the early or mid stages of a large project, the application of the IFRS percentage of completion method of accounting for projects in progress, which eliminates WIP from the balance sheet, distorts Sales & Cost of Sales and the gross margin (between years).

IAS 39 for embedded derivatives needs to be revisited. One example, currently a Canadian company completing contracts with European businesses in US currency has to calculate their embedded derivatives from future cash inflows, although related offsetting US vendor contract outflows in US currency, are not allowed to be included in this same calculation of embedded derivatives. When dealing with large dollar contracts, this creates incredible distortion to the income statement.

I believe there will have to be a GAAP for private enterprises until the IFRS standards can be modified to better reflect the needs and realities of business operations. From my experience utilizing IFRS during the past two years, I think IFRS does more to distort reporting to the investor than our existing Canadian GAAP.

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