

Comment on GAAP for Private Enterprises.

To give you an idea of the environment that has shaped my comments, I am a sole practitioner with 16 years post qualification experience and 15 years experience as a sole practitioner. My practice consists of small private entities without significant external users (50%) and small private entities with significant external users (20%) and other work (personal tax, NPO's and consulting) (30%).

My experience with clients I think is typical of most in my situation. Clients want to minimize fees and yet still provide some assurance to themselves and likely the bank (bank has a loan of <\$100,000) that "the numbers are right".

Currently I am forced to put the notice to reader report on statements which I tell clients is the "don't blame me report". However, and I realize the insurance guys will cringe when I say it, I do some work to verify that most of the amounts in the balance sheet are correct in some way. (ie bank reconciles, A/R ties into a subledger, doubtful accounts are identified, inventory is counted if relevant, capital assets are capitalized at cost, A/P ties into a subledger, payroll payables tie into supporting documentation, accounting fees are accrued, GST paid and payable at least appears plausible, LTD ties into loan statements, income tax payable is reconciled to CRA #'s)

If I do not do this the majority of my clients don't need me. They are easily swayed by the lure of lower fees from CMA's or CGA's who often provide a lower level of assurance but put our assurance reports on the financial statements that they produce. The client sees this as the same service. Therefore, it is extremely difficult to convince an unsophisticated small client that they are actually getting something for the extra fees that I would charge.

To get around this issue we have the Notice to Reader report. However, the notice to reader report was dreamed up when Simply Accounting did not spit out balanced financial statements. When we compiled the numbers we did the book keeping, and therefore had some degree of assurance that it was correct, and then as now, the client and any outside users placed some level of assurance on the statements even though we told them not too. If the client could provide us with a trial balance then we more than likely issued a review engagement report.

In the ICAS presentation regarding this request for comment they said that 85% of private enterprises fall into the "no significant outside users" category. We need something to give these people what is relevant. In addition we need to be able to simplify GAAP for the other 15% of private enterprises which do have significant outside users.

I see the requirements of the 85% and 15% as subsets of GAAP not somehow different than GAAP or non-GAAP.

The 85% have Core GAAP. Everyone requires a reconciled bank, etc. whether you are a private enterprise with no external users or a publicly accountable entity. This Core GAAP would strip out many of the choices that we currently have in GAAP to simplify compliance. For guidance in setting Core GAAP I would look at what practitioners are currently doing for their notice to reader financial statements and try and replicate that.

The 15% have Expanded Core GAAP. This takes Core GAAP and adds choices to certain things or completely different areas. For example, maybe future taxes are not in Core GAAP but would be in Expanded Core GAAP.

Publicly accountable entities would then have IFRS based GAAP or Full GAAP.

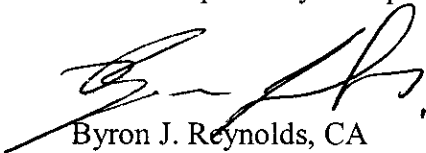
This can be visualized as concentric rings with Core GAAP in the middle. (Figure 1)

Right now with the differential reporting model we have GAAP and then an added level of complexity which is differential reporting. (see figure 2) Smaller companies have to deal with more complexity rather than less.

With Core GAAP, Expanded Core GAAP, and Full GAAP we could have assurance on all financial statements and hopefully do away with the Notice to Reader. We could provide assurance at either the review or audit level for each of the three "levels" of GAAP.

In answer to the specific questions posed in the Invitation to Comment the above analysis would lead me to answer as follows:

1. Yes a common underpinning of fundamental accounting principles applies to all types of entities.
2. Yes there needs to be linkage and it is very important in developing accounting standards for private enterprises. These standard should start with universal standards common to all entities and then add choices and possibly whole areas which only apply to private entities with significant external users and publicly accountable enterprises.
3. I would pick option 1, but I would call it a bottom up approach. Pick the things that are core to financial statement items (ie common to all entities, cash is a current asset) and these are the things that the very smallest entities have to comply with. Then add complexity.
4. There is a huge need for "non-GAAP" guidance, although I would take issue with the "non-GAAP" label. The AcSB should develop this guidance to standardize current Notice to Reader financial statement preparation. This would recognize that we already are providing assurance on Notice to Reader financial statements in most cases, we just don't admit it. This guidance is required by both prepares of, and users of, what I call "Core GAAP" financial statements.



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Figure 1

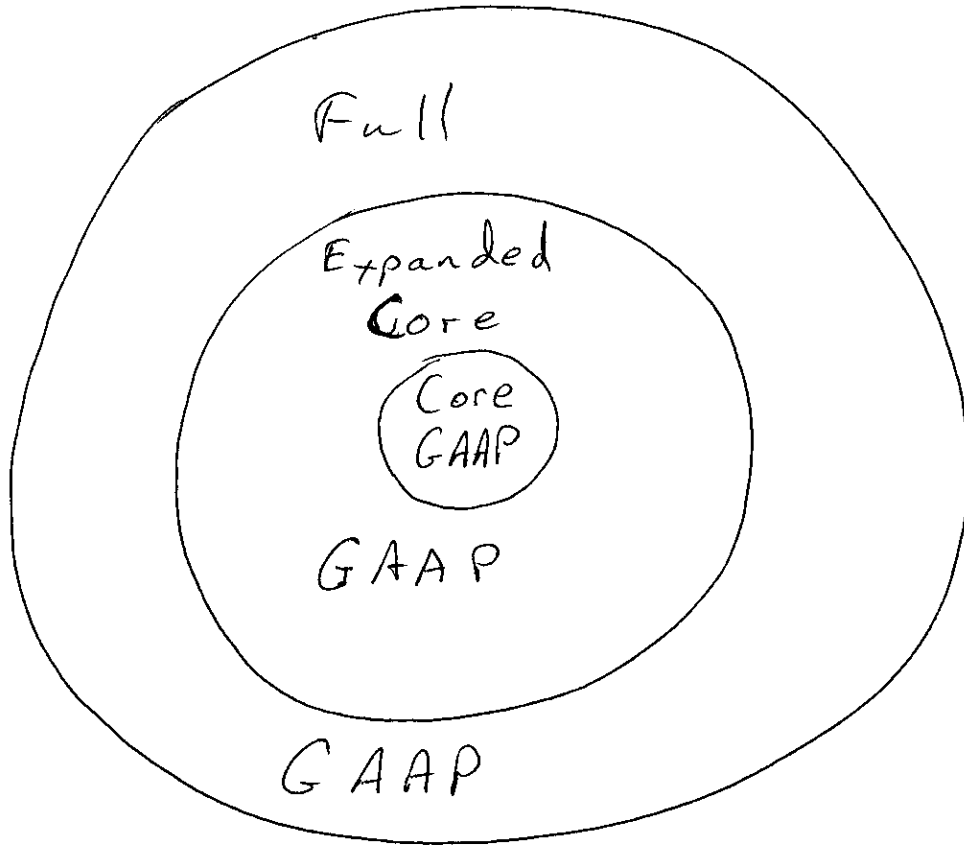


Figure 2

