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## SOME CONSIDERATIONS ON CANADIAN COMPANY ACCOUNTING

—through an opinion survey about some specific accounting items—

by

*Yoshio Aida*

### *I. Forward*

The aim of this paper is to analyze some realities in Canadian company accounting and consider their characteristics from the viewpoint of international accounting theory. For this purpose, some material readily available in Japan, listed below, has been used as a reference. My approach is also based on examination of the results of an opinion survey on chartered accountants in the so-called Big Eight accounting firms in Canada. The following books are readily available regarding Canada's accounting practices:

1. *Financial Reporting in Canada*, 11th ed.—*Summary of Financial Reports of 1974, 1973, 1972, 1971*, Canadian Institute of Chartered Accountants, 1975, pp. 1-245.
2. *Professional Accounting in 30 Countries—Canada as of October 1973*, American Institute of Certified Public Accountants, 1975, pp. 105-127.
3. *Kaigai no Kigyō Kaikei* (company accounting abroad), Equipment Investment Research Institute of Japan Development Bank, 1971, pp. 143-198.
4. K. Someya, *Canada no Kaisha Zaimu Shohyō* (Canadian company financial statements), 1978, pp. 154-162.

Firstly, from this literature it can be seen that one of the major features of Canadian company accounting is that its practice remarkably resembles that of America. That is to say, it is a fact that accounting reports and accounting procedures are generally being Americanized, except those under definite prescription of the tax law. According to Prof. Someya, financial statements of Canadian companies are very similar to those of neighboring America rather than to those of the United Kingdom. He further develops a thesis that three types of financial statements are distinguishable: 1) American-Canadian 2) British-Australian 3) German-French—as a result of his international comparative study. However, such a conclusion is somewhat doubtful in regard to my study of the opinions of Canadian chartered accountants. An example of this is a comparison of approval-or-disapproval on deferred accounting for research and development costs in America. Such a procedure is not carried out, according to the Financial Accounting Standard Statement No. 2 of the FASB

(published in September 1974). In contrast, in Canada this method is being employed (following table).

**Accounting Procedures of R&D Costs (Canada)**

|                                  | Number of Companies |           |
|----------------------------------|---------------------|-----------|
|                                  | 1974                | 1973      |
| Expense as incurred              | 43                  | 22        |
| Carried forward in balance sheet | 3                   | 6         |
| Both                             | 3                   | 2         |
| No indication                    | —                   | 1         |
| <b>Total</b>                     | <b>49</b>           | <b>31</b> |

This table shows that according to a recent survey in Canada more than 10 percent of big companies apply the deferral procedure to R&D costs. Also, in the recently published CICA's exposure draft (Accounting for Research and Development Costs, Feb. 1977) the basis of deferral is to be noted.

Secondly, in America the general disclosure system by the 10K Form of the Securities and Exchange Committee requires attachment of detailed data of inflation accounting as supplementary material to basic statements, whereas in Canada such data is not required, although her Anti-inflation Act is raising problems regarding business activities.

Thirdly, the observance of the disclosure system in business combination accounting is also in contrast. While in America this practice of pooling-of-interest seems to be predominant, in Canada this problem is still being discussed. Fourthly, as for the consolidated accounting system, Canada has not yet adopted it, although a move to adopt one resembling America's is being considered.

In the above, I have selected four specific accounting characteristics, not from a systematic viewpoint but from the important relationships now being discussed in Japan. Although these contrasting practices between America and Canada exist, similar trends in practices exist between Canada and Japan. For these reasons, I have attempted to present the problems regarding the above-mentioned characteristics of American-Canadian similarities.

The author was given an opportunity to study international accounting theory as a resident student abroad. While investigating accounting practices of America, he also researched Canadian, British, German and French accounting practices.

Now, as the basic material for this research I took questionnaire surveys of Canadian accountants and the partners of big-scale accounting firms regarding major themes of accounting. The survey was taken twice, in the first half of October and in the middle of November of 1977. Prior to this, I had visited CICA's main office in Toronto in September to obtain the CICA Handbook as well as other material about accounting principles and standards, and from the standards described in them, I chose 15 items as the topics for my questionnaire

(as shown below). Eleven copies of the questionnaire were sent to CICA's Committee and 12 to four firms of the Big Eight. In November I interviewed by field survey or telephone those who had completed the questionnaire. Twenty out of 23 of the questionnaires were answered. Thus the answers covered 90 percent of the topics. Here I should like to express my gratitude to those who assisted me.

The survey was an opinion survey. Since several studies concerning Canadian accounting have already been published, in my questionnaire I placed weight on getting opinions on themes selected from the viewpoint of international accounting theory. Concerning Canadian accounting practices, I wrote an article, Canada no Kaikei no Jittai, in *Sangyō Keiri*, June 1978. Readers may refer to it.

Below I will present and review the opinions expressed in my survey, point out problems involved in each theme, and consider the present state and trend of Canadian company accounting.

#### Questionnaire about Canadian Accounting Systems

Please check one box in each question. If you choose "Other", please explain briefly. Name \_\_\_\_\_. Without your permission, your name will not be published.

## **II. Themes of General Character**

In the first three questions (15 items) I took up general themes and intended to observe the managerial climate and characteristics of Canadian accounting.

### **Question 1. General characteristics:**

What is your opinion of the general characteristics of the Canadian accounting systems?

- |   |                                     |
|---|-------------------------------------|
| a. They are mainly influenced by those of the U.K.      | <input type="checkbox"/>            |
| b. They are mainly influenced by those of the U.S.A.    | <input checked="" type="checkbox"/> |
| c. They were independently developed by Canada          | <input type="checkbox"/>            |
| d. They are a mixture of those of the U.K. & the U.S.A. | <input type="checkbox"/>            |
| e. Others   | <input checked="" type="checkbox"/> |

(Note: the figures in the boxes are the answers given by 20 people; similar, in the following questions sometimes there were duplications and/or no answers.)

(All the answers in Others can be summarized: Canadian accounting has developed as Canada's own but there is some American influence.)

The first question asked was whether Canadian accounting practices come under the American type or the British or whether they have been developed by Canada. The majority of those questioned answered "Mainly influenced by American systems." This may result from the fact that the partners of the Big

Eight accounting firm for a large ratio of the answerers, yet it should be noted that the members of CICA's Committee, in positions of responsibility, hold the same opinion. And it is also notable that almost all other answers are "independent development under some American influence," and that the answer "Mainly influenced by Britain" was not chosen by anyone.

Until World War II, Canada had been grounded on British legal systems as a British colony or dominion. Her *Companies Act of 1934* was a law that followed the example of Britain's law in its structure and contents. Even the name of "chartered accountant," denoting those engaged in auditing, was the same as that in Britain.

In Canada as independence from Britain came step by step, the foundation was laid for the year 1946, when she became a perfect dominion with legal independence. On the other hand we can see that her relation with America has become closer and closer on account of geography, kindred historic background, the intimacy of socio-economic affairs (including currency), and culture as well as daily life. Thus the two countries may be likened to cousins, but we must consider the fact that while some Americans see Canada as a country so intimate that they regard it as a part of North America, some Canadians say both countries are quite independent, and thus stress the differences.

On several points in the recent trend of the Canadian accounting system Americanization is been observed as mentioned above. When looking at the contents of description on the accountant's audit reports, for instance, past reports are of a British type, that is, a document form that certifies the validity of financial statements being pursuant to the Companies Act. In contrast, in the audit report of today, in its judgement section a remark is inserted that the financial statements can be recognized to have validity in accord with generally-accepted accounting principles and on the same basis as the ones from preceeding years. Again as regards auditing procedure, attendance at inventory stock-taking and confirmation of receivable accounts are considered as generally-accepted steps. These were settled as normal procedure earlier than in Britain, so to speak, following American examples. Such an inclination to the Americanization of accounting and auditing has undeniably become remarkable in recent years.

On the other hand, however, something exists that does not always go along with changes in the American disclosure systems, too rapid changes, as was mentioned at the beginning of this paper. Some of the following questions were raised in order to explicate this theme of Americanization:

**Question 2. Audit Committee:**

What is your opinion of the audit committee in a publicly held corporation?

- a. It is an indispensable system in a publicly held corporation. [10]
- b. It is not always an indispensable system. Instead, an internal control system is more important. [5]

## c. Others

5

(Answers in Other were: both are important; the case varies from company to company; the committee is very important.)

By these answers collected it can be seen that most accountants and researchers hold a positive view on setting up the audit committee for the purpose of appointing chartered accountants, in other words as a backing to protect their independent position. Ten persons out of 20 saw the committee as an indispensable organ while many others respected it.

A fact to note as the background of these opinions is that, as a trend in American practice, the SEC and the New York Securities Exchange are strongly demanding provision of this committee in order to give certified accountants an independent nature as auditor, and, in addition, let them become an assistant to the president and other executives. In 1940 the SEC recommended it by the ASR No. 19, and again in 1972 positively supported one composed of non-executive directors in all companies listed on securities exchanges. The New York Securities Exchange in 1973 earnestly advised then listed companies of the set-up of the committee consisting of three to five non-executive directors. And according to its research report, 882 of 1,130 companies answering had it, and 88 percent of them was composed exclusively of non-executive directors. We may realized that by these facts Canadian accountants are requiring its set-up because some 50 big Canadian companies are listed on the NY Exchange, and AICPA's survey covers 600 companies of both America and Canada comprehensively.

**Question 3. Inflation Accounting:**

What is your opinion of inflation accounting?

- a. Using the current purchasing method is effective. 0
- b. Replacement cost data device based on SEC's call is effective. 2
- c. Fixed assets should be written up on the basis of appraisal. 0
- d. Others 17

(Answers in Other are very diverse: both (a) and (b) are useful; further study is necessary; instead of SEC's device replacement cost information should be inserted in basic financial statements; current value accounting is more effective; no definite opinion; a mixture of (a), (b) and (c) is better; what is essential is experience; the method used should be disclosed in a supplementary statement; a revised method of SEC's device is suitable; this is a future problem.)

Thus on this problem of inflation accounting opinions were various, say, "several men, several opinion." That is, 17 of 19 persons mark Others. The Other answers can be broadly classified into three views. The first view positively supports current value accounting and intends to practice inflation accounting in basic statements. The second opinion is that introduction of this accounting is still too early; it should be dealt with cautiously, referring to the experiences of other countries. The third holds that disclosure should be made in a supple-

mentary statement on revising SEC's device, say, a compromise view.

There are several reasons for such different opinions. Firstly, one obstacle to a uniform opinion is that, although SEC's device is being appreciably taken up for discussion, where some Canadian companies are listed on the NY Securities Exchange, its form is replacement cost information based on specific price indexes confined to four items and, while necessitating complex calculation, it stays within the range of a supplementary statement. Secondly, a point inviting much discussion of this problem is that, although Britain has a tentative method of the Hyde line, the ED No. 18 was rejected in the extraordinary general meeting of the British Institute of Chartered Accountants. Thirdly, a conceivable condition is that the CICA does not move to make a hasty conclusion of this theme, leaving it still in a stage of discussion. In July 1975 it published an ED titled "Accounting for Changes in the General Purchasing Power of Money" and later in August 1976 a discussion paper "Current Value Accounting," but it stopped there. The former is understood to indicate guides for presenting what is based on general price change accounting as supplementary material, and in the latter there are exhibited ways of thinking on current value accounting concerning the same basic idea. These are being considered, however, not to show concrete plans but merely to present tables for discussion. These situations are conceivable as the background for the said diversity of opinions. We may speak of the lack of good ideas for inflation accounting, yet in Canadian practice this problem is still being discussed.

### ***III. Themes Relevant to the Ways of Disclosure in Business Combination and Consolidation***

Taking five items of the surveyed fifteen (the 4th to 8th) for the theme of disclosure in business combination and consolidations, the disclosure systems in Canada are focused on and their realities investigated.

#### **Question 4. Business Combination Accounting:**

What is your opinion of the accounting method for a business combination.

- a. The purchase method is effective. 7
- b. The pooling of interest method is effective. 0
- c. It depends on the specific situation. 10
- d. Others 2

(Opinions in Other are stated depending on concrete cases, e.g. purchase method for company acquisition. They could be included in the (c) category.)

Here I take business combination as a concept involving both cases of accounting consolidation and merger. Whether its accounting treatment should be purchase or pooling of interest is a theme which has long been discussed in America, and it appears that the interest pooling method is being considered as more favorable. There have been discussions on Accounting Research Bulletin No. 43 and No. 51 and on APB (Accounting Principle Board) Opinion No. 6

and No. 10. In the case of company merger, by the interest pooling method the historical cost principle is preserved through the old and new companies, instead of exercising appraisal by the current value principle on the basis of a new start. For this reason pooling of interest method is more advantageous in taxation and so has become preferable. Yet because too much reliance on this method causes problems, APB Opinion No. 16 has provided twelve requisites for application and has recommended that if any one of them is not fulfilled the purchase method must be used.

However, in many other countries, notably in Europe, the pooling of interest method is not so prevalent. In Canada also a report states that it is seldom used. The above results of my survey reflect such a practice, and here (contrary to America) the logic of purchase is being applied.

**Question 5. Consolidated Financial Statements (1):**

What is your opinion of the extent of consolidation?

- |  |    |
|--|----|
| a. All subsidiaries should be included in consolidation. | 5  |
| b. Special cases should be excluded from consolidation.  | 13 |

Special cases are as follows:

- |                               |   |
|-------------------------------|---|
| 1. Regulated industry         | 6 |
| 2. Joint ventures             | 1 |
| 3. Insignificant subsidiaries | 3 |
| 4. Foreign subsidiaries       | 2 |
| 5. Others                     | 7 |

(Answers in Others are: temporary stock-holding firms and those in bankruptcy should be excluded; as for excluded firms, their financial statements should be attached independently; CICA's re-enclosure draft should be referred.)

To observe the standard of the extent of consolidation, two standards have been regarded as being opposed: that of majority stock-holding in America and that of control power in Britain and Germany. Of these two standards, in Canada stock-holding is prevalent in accounting principles and among accountants; in this sense it may be said the same standard as America's is being adopted.

Canada has no consolidation tax system for consolidation accounting practice. However, the opinion of "All subsidiaries" accounts for one-third of the answers and the cases of exclusion are not so numerous.

It is interesting that in the cases of exclusion "significance" is mentioned by only 3 of the 20. And, as shown by some answers in Others, requirement of individual financial statements for excluded subsidiaries is respected. Of course, as for bankrupt companies and temporary stock-holding ones, exclusion poses no problems since, from the viewpoint of value as investment information, these should be excluded. Generally speaking, it may be correct to say that Canadian's method of consolidation accounting is mainly according to America's standards.

**Question 6. Consolidated Financial Statements (2):**

What is your opinion of the treatment of the differences between the cost



of an investment and the parent's equity in subsidiaries?

- a. An excess of the cost on an investment over the share of equity should be accounted for as goodwill. 3
- b. An excess of the parent's equity in subsidiaries over the investment should be accounted for as capital surplus. 0
- c. The reason for such differences should be analyzed and be accounted for, depending on the case. 12
- d. Others 2

(Others are: analysis of reasons and treatment of the balance as goodwill.)

As for the treatment of the investment account elimination difference at the time of consolidation, a characteristic of the Canadian system is, again, its kindred relationship with the American system. It has been pointed out that as for the treatment of this difference in British practice, the prevalent method is to account a debit-side excess as goodwill and a credit-side excess as capital surplus, whereas in America treatment by cause analysis is relatively standard. In Canada the ruling method is to treat according to reasons after analysing the causes, a trend akin to the American practice. Although there are a few Others opinions such as "Debit-side differences as goodwill", etc., these cannot be said to be opposed to the idea of cause analysis.

**Question 7. Valuation of Investment in Affiliates:**

What is your opinion of the valuation of investment in affiliates (owning shares of more than 20% and less than 50%?

- a. They should be carried on a cost basis. 1
- b. They should be carried on an equity basis. 16
- c. The lower cost or equity basis. 0
- d. Others 5

(Others: the equity method should be used where there is effective control power; the current value basis or the cost basis should be adopted; the principle is the equity method but sometimes this is not practicable.)

From this survey of opinions on application of the equity basis we can imagine Canada widely introducing American consolidation accounting standards, for more than 90 percent of the answers support the equity basis in some form. In view of the fact that in Germany application of this basis is not allowed and in several other countries it is not supported much, the opinion in Canada may be said to be deep-rooted.

In America broad application of the equity basis has been earnestly recommended by APB Opinion No. 18, which became effective in the business year beginning after Dec. 31, 1971, and again later in the International Accounting Standard (published in July 1976). We could see that practice in America and Canada has been the background of these moves.

#### ***IV. Themes about Treatment and Disclosure of Several Specific Problems***

In the eight items out of fifteen in my questionnaire survey (8th to 15th), the focus is placed on some specific matters such as segmented information-8, depreciation-9, lease accounting-10, R&D costs-11, foreign currency translation-12, exchange gains and losses-13, stock dividends-14 and university accounting-15.

##### **Question 8. Types of Segmented Information:**

What do you think of the types of segmented information?

- a. Disclosure of information about diverse segments is necessary for annual reports to stockholders. 17
- b. If (a) is your opinion, the information should include:
  1. Each segment's sales information 15
  2. Each segment's gross income information 10
  3. Each segment's net income information 11
- c. Disclosure of segment's information is necessary in Form 10K of SEC, but not necessary for annual reports to stockholders. 2
- d. Others 2

(Answers in Others are: segmented financial reports are not so useful; profit-loss calculation information is more important.)

Recently requests for perfect exhibition of corporate finance conditions are very strong in America, and from this viewpoint, disclosure of segmented information and supply of information about activities divided by the business field, overseas activities and export, and main business connections were requested by FASB's statement No. 14 (Dec. 1976). Diversified business information about sales, profits-losses or net profits, and distinguishable assets divided by the region and field are required to disclose.

The survey in this question tells that also in Canada there is a kindred trend. A minority view takes that traditional income information is more effective than such segmented information. Such a view, however, is of a minority and is supposed to depend on consideration of individual firm's conditions. And it must be taken into account also that segmented information is required as additional information to the basic financial statements. Anyhow, we could read in the questionnaire presence of a tide that from the viewpoint of more detailed investment report segmented informations in some form must be included.

##### **Question 9. Depreciation:**

- a. Have you experienced application of the sinking fund method of depreciation?  
 Yes 13, No 7.
- b. Do you think the sinking fund method of depreciation is acceptable?  
 Yes 4, No 8, Others 2, No mark 1.

(Answers in Others are: this sinking fund method is usable only under special

conditions; it is acceptable only as an exceptional case of tangible fixed asset accounting.)

As regards depreciation accounting no remarkable differences are found between America and Britain and also between Canada and America-Britain. However, according to some positive studies (e.g. Price Waterhouse, A Survey in 46 Countries, 1975, p. 69, 73) Canada's characteristics lie on two points. One is that the sinking fund method is accepted only in a minority. Another is that in financial statements for taxation sum of depreciation entered in the final settlement standard can be approved for taxable income calculation. That is, in America this method is not seen in practice, and there is no requirement for it on tax return. These two points are considered to be the small differences between America and Canada.

I provided this question in respect of these situations. Experience of it was affirmed by the majority of answerers. This method has been admitted for mining assets in Canadian accounting and is supposed to make background of such experience. It is noted, however, the opinions about approval-or-disapproval are almost fifty-fifty. Further it is remarkable that its acceptability is denied by 3 persons by Yes answerers on his experience. In conclusion, in Canada with rich mining resources the sinking fund method has been experienced in connection with bond issuing, and views accepting it account for a half of answers. Conceivably such a fact in Canada was the background that made the International Accounting Standard No. 4 recognize this method, which was not seen in America and Britain, as a normal method of depreciation side by side with the fixed rate and the straight line method.

Question 10. Lease Accounting: (19)

What is your opinion of lease accounting?

- a. The method of accounting for lease transaction should be disclosed.  
Yes , No .
- b. Lease transactions should sometimes be accounted for by the lessee as an installment purchased (capitalized).  
Yes , No .
- c. Others.

In America, lease accounting is being regarded as a focal discussion theme along with inflation accounting. Especially since the publication of FASB's Statement No. 13 (November 1976) on the standpoint of pragmatism and against the background of a rapid increase in this transaction, its disclosure by capitalization seems to have become a problem. That this Statement No. 13 is more detailed in contents than other Statements is said to tell presence of resistance against capitalization in practical accounting field.

So I questioned on this theme. It is notable that all 19 answerers affirmed to take lease generally as an object of disclosure, and similarly all gave Yes to its capitalization according to the case. By these two questions it is understood that so long as this transaction itself is concerned, opinions are the same with

America's formal view. As for the concrete method of disclosure, however, practice in America is diverse including commenting and capitalization. Again as to what case should be capitalized no uniform views are seen, and for this reason effectiveness of the Statement No. 13 is being expected. I have not studied concrete methods in Canada, but in my interview difficult problems were suggested about capitalization such as relations with tax accounting, interest rates for present value and other technical ones. Accounting treatments of this transaction will be a subject of discussion for some time.

**Question 11. Research and Development Costs:**

What is your opinion of the treatment of research and development costs?

- a. The deferral of R&D costs is acceptable if certain criteria are met.  13
- b. All R&D costs should be charged to expenses when incurred.  6
- c. Others  0

Since the FASB's Statement No. 2 has recommended that "All accrued ought to be reckoned as expenses for the accrual period" (Paragraph 12), adjustment of treatments among different countries has come to deliver a problem. (In Japan by an amendment of the Commercial Code of 1962 reckoning of R&D costs on deferred assets was acknowledge.) In Canada CICA's study committee has published "Accounting of R&D Costs" as a exposure draft and was asking for comments on it (at the time of my visit, February 1977). It is interesting that, contrary to America, the idea of approve an appreciable extent of deferral is included.

In view of these background the opinions in my survey are understandable in which 70 percent supported deferral. Also according to a recent research (CICA, Financial Reporting in Canada, 1975, p. 86) 49 companies disclosing R&D costs, 43 account it as current expenses, while 3 practice deferral and the other 3 use both methods. This fact is considered to be reflected in my survey. At the same time the opinions are conceived to tell that the Statement No. 2 contains some problems to be reviewed.

**Question 12. Foreign Currency Translation:**

What do you think of the translation of foreign currency?

- a. The monetary-nonmonetary method should be used.  2
- b. The current-noncurrent method should be used.  0
- c. The current rate method should be used.  2
- d. The temporal method should be used.  13
- e. Others  1

(The one answer in Others is combined use of (a) and (b) which can be as substantially the same with the temporal method.)

In America various thinkings have been expressed for the basis of foreign currency translation. The ARB No. 43 of 1953 has advised current-noncurrent item classification as the principle, and the APB Opinion No. 6 of 1965 the monetary-nonmonetary method. And recently by the FASB Statement No. 8 of 1975 a method standing on the idea of currency-expense item classification is

recommended as a temporal method.

In my survey it is shown that the supporters of the temporal method command a majority. As its background, there are the facts that in June 1977 the CICA published an ED on translation accounting and then was under discussion, that its weight was placed on the temporal method, and that American practice supported this method. However, support of other methods such as monetary-nonmonetary item classification is also seen, and practically various methods are being employed. For this reason, the future of the said ED is drawing attention. Anyhow on this theme the result of research in America can be regarded to be greatly affecting the Canadian practice.

**Question 13. Exchange Gains and Losses Based on Translation:**

What is your opinion of the treatment of unrealized exchange gains and losses?

- a. These should be included immediately in the current net income.
- b. These should be deferred until realized.
- c. Others

(Views in Others are: in principle these should be included current income and exceptionally those of monetary items be deferred; various methods be approved; be deferred and depreciated; be made losses and gains in the term of accrual unless reverse direction is foreseen; CICA's draft be referred.)

Here the question concerns are unrealized gains and losses. Realized ones will naturally be entered in the current income calculation and so, no problems lie. The answers are quite diverse but can be divided almost equally into three groups: entry on current income, deferral till the time of realization, and miscellaneous. This may tell that the problem is complex and any standard is hard to provide.

The CICA's exposure draft mentioned in the answer of Other (Accounting for Translation of Foreign Currency Transactions and Foreign Currency Statements, June 1977) gives explanation on various systems comprising (a) a method to enter in the gain-losses of the time of accrual, (b) to defer till realization, (c) to adjust costs of relevant assets, (d) to adjust stockholders' equity, (e) to account losses in the accrual time and to defer gains, and (f) to defer and amortize over periods relevant to the credits and debts concerned. The Committee has proposed that realized gains-losses be reckoned as those of the accrual time and unrealized ones resulting from short-term monetary assets and short-term debts should be reckoned as those of the accrual time, but unrealized ones resulting from translation of long-term monetary assets and long-term debts should be in principle amortized on the straight line method over some periods. These contents of the proposal, however, are still in the drafting stage and have not yet been established. Also, regarding to the International Accounting Standard the standards of translation have not yet been settled. Therein the difficulty of the problem can be seen. Also in the practical accounting circle of Canada discussion will be continued, reflecting opinions expressed through this

survey.

**Question 14. Stock Dividends: (Share Distribution):**

What is your opinion of the treatment of stock dividends?

- a. Stock dividends should be recorded at par value when they are declared. 6
- b. They should not be recorded at par value but should only increase the number of stocks held. 8
- c. Others 4

(Others: recording should be made on fair value nation; sometime face value is absent.)

It is said that since the U.S. Supreme Court's decision that stock dividends are share distribution (1922) in America's practiced journalization of stock dividends into "securities" (debit side) and "received dividend money" (credit side) is not practical and merely recording of increase of number in stocks held is being conducted. In Japan also this opinion is influential in accounting theory (e.g. T. Iino, *Zaimu Kaikeiron*, 'financial accounting theory,' 1977, p. 98). But since Japan's corporate tax law prescribes that in the case of stock dividends the acquisition prices of old and new stocks shall be calculated on the basis of face values (for par value stocks) or of issue prices (for no-par stocks) (Enforcement Provision 42), the treatment as received dividend money is mostly practiced. This creates a variance between theory and practice.

It is interesting to note that in my survey based on Canadian practice these two opposite views are well presented. That is to say, the treatment as profit dividends—not possessed by America's standard—and another treatment as mere increase of number in stocks are accepted at almost equal proportions. And the difference between the two results in a difference in timing of profit calculation, a point on which I will not go beyond a remark here.

**Question 15. University Accounting:**

What is your opinion of the necessity of depreciation in university accounting?

- a. Depreciation is necessary. 7
- b. Fund accounting is more effective. 4
- c. Others 8

(Others: both (a) and (b) are necessary for information as plentiful as possible; it depends on the method of fund raising; no opinion (4 persons); no knowledge (2 persons).)

Several persons who answered Others commented "No particular opinion" because there is no legal audit provision in Canada's university corporate accounting. In my interview some persons also said that they had had no experience in auditing of university accounting, nor had they been consulted. In American practice, depreciation in university accounting is regarded as necessary to prepare material for pricing in some sections, e.g. dining halls, but accounting for major sections is mostly based on fund accounting on which de-

preciation is not conducted. So I posed this question in order to evaluate the practice of Canada with contrast to the American practice.

In the answers above, several accountants agreed that depreciation is necessary even for university accounting, yet in my interview most accountants considered depreciation to be a cost in managing auxiliary sections but do not consider it regarding college buildings or research facilities. Again, according to CICA's research study (*Canadian University Accounting* by R. M. Skinner, 1969) it is doubtful whether depreciation is necessary for university accounting; and in the example of treatment of auxiliary sections (dining halls, etc.) depreciation cost is included in the income statement (p. 36). As regards major sections, examples of the calculation structure of fund accounting (operating fund, plant fund, restricted fund) are illustrated in which depreciation is not counted. Examples of depreciation according to the ways of fund raising, however, are included (p. 18). Supposedly these views are reflected in the opinions shown in my survey, and it is understood that depreciation is being regarded as unnecessary in cases where fund raising has been conducted for expansion of buildings, libraries, or research facilities. In this sense, regarding depreciation in corporate accounting for nonprofit organizations such as universities, no concensus has been reached.

## V. Conclusion

I have considered the opinions of principal Canadian accountants regarding some recent topics and have drawn some conclusions from them. As to practical accounting, conformity with American accounting standards is a characteristic of Canadian accounting, i.e. systems of consolidated financial statements (Qs. 5, 6, 7), foreign currency translation (12, 13), and lease accounting (10). On the contrary, Canadian practice differs from the American and Canada's particular concern is shown. For example, approval of deferral on R&D costs (11), sinking fund accounting on the same (9), stock dividends (14), and absence of the pooling-of-interest-accounting (4).

Also, there are some items which are presently being studied, are in the process of introduction, or are being attended to with some hesitation in introducing the American standards; such as the audit committee (2), inflation accounting (3), segmented information, (8) and the university accounting standard (15).

There may be objections to this classification. While I have mentioned approval of deferral on R&D costs as a peculiar type of this country, in America FASB Statement No. 2 prohibited it as a rule, supposedly because adoption of it became widespread. In this sense, Canadian accounting practice may be said to have been greatly influenced by the American practice, excluding cases in which taxation accounting is done on a definite accounting basis. It is interesting to note, however, that many American systems are almost the same in practice

as are those in Japan, i.e., deferral R&D costs, non-application of inflation accounting and the pooling-of-interest method, and treatment of stock dividends. Here attention should be given to the characteristics or trends of American practice which has fluctuated too much due to pragmatism and the pioneer spirit.

The background of Canada's shift from the British to the American type—in conformity with moves in recent years, the so-call age of international accounting—there lies the legislation process of Canada's commercial laws. This process is a characteristic of Canada's fluctuating and complicated accounting practice.

Canada's transition of regulations relevant to financial statements in her commercial and corporate laws has been advanced through three steps corresponding to the British type, the American type, and then the international type. The first steps was the enactment of the Companies of 1934, in which Articles 111 to 119 provided regulations for financial statements much on the British line. That is, it was necessary that a company have accounting books, the balance sheet had to include at least fifteen items beginning with cash items (with explanation of names) and contain prescribed contents, and the audit report had to state whether true and fair disclosure of financial positions had been made.

The second step was the amendment of 1965 of the Companies Act, in which transformation to the American type is considered to have begun as regards, for example, the formula of the entry of an accountant's views. And in the Amendment Act of 1971 (Art. 171) it was prescribed that the audit report must express a view on whether the company's statements follow accounting principles which are generally accepted as fair and appropriate, whether they are prepared on the basis of preceding term's statements, and whether the company's financial positions and business performances are accurately presented. However, when looking at the items listed at that time, the formula of the balance sheet was still of the British type; that is, detailed prescription including as many as twenty-seven time beginning with cash items.

The third step, which can be regarded as corresponding with the age of internationalization, was the enactment of the Canada Business Corporations Act—amendment of the Companies Act—of May 1975. As a result, the former British type of disclosure, which included detailed balance sheets, was excluded and "financial statements under prescription by this Act (Arts. 149 to 163) shall be prepared following the recommendations involved in the CICA Handbook unless otherwise provided" (*Canada Gazette* Part II, Vol. 109, No. 24, Part V Financial Disclosure, p. 31849, 1975). This prescription is based on flexible considerations conforming to the age of international standards. These Articles and comments of the standards, which the CICA independently has set up on the basis of the International Standard, are secure as standards having supreme power of the field. Thus the problem of whether legalistic regulations or international standards, variance between two principles, has been solved.



In this sense CICA's further efforts to establish accounting standards and their results are expected.

Canada's transfer of the authority of setting up standards of accounting treatments and auditing to the CICA, a civil association of accountants, on the basis of its autonomy, instead of relying on laws and legal provisions backed by state power, will be appreciated as an example of the age of internationalization.