

## Flash – ASPE and ASNFPO

# Canada-U.S. Trade Crisis: Potential Accounting Impacts

March 2025

Various announcements concerning the imposition of tariffs have been made since the November 5, 2024, U.S. election. The uncertainties associated with the protectionist measures that could come into effect and the resulting countermeasures are likely to have a significant impact on the economic environment in which many entities operate and, more broadly, on the Canadian economy as a whole. Entities should carefully consider the accounting implications of this uncertain environment.

This edition of *Flash* presents accounting implications and identifies key financial reporting areas that entities should consider when determining the potential impact of the Canada-U.S. trade crisis on their entity and on the results, financial position and disclosures in their financial statements prepared in accordance with accounting standards for private enterprises (ASPE) or accounting standards for not-for-profit organizations (ASNFPO).



## Accounting implications of the trade crisis

As of the date of this publication, Canadian entities may not yet have experienced any direct impact from the trade crisis between Canada and the United States or may not be in a position to assess the extent of such impact. The assessment of potential implications and their magnitude will vary according to the following factors, among others:

- The field of activity or industry in which the entity operates;
- The importance of commercial transactions with customers or suppliers located in the United States and the importance of related tariffs;
- The extent of transactions carried out in foreign currencies and the entity's exposure to currency risk;
- Any developments in announcements and measures implemented by the Canadian and American governments, particularly regarding tariffs and countermeasures.

These impacts or the uncertainties surrounding the potential impacts of this trade crisis may affect the amounts recognized by an entity as assets, liabilities, revenues and expenses in various ways, and may result in related disclosure requirements in the notes to the financial statements.

The **Appendix** to this *Flash* contains a table identifying key financial reporting areas that entities need to consider when determining the potential impact of the trade crisis on their company, on its results, financial position and disclosures in its financial statements prepared in accordance with ASPE or ASNFPO.



## Our thoughts

The list of the potential impacts of the trade crisis on an entity's business and financial statements is daunting. Although accounting standards already provide guidance on how to deal with these various potential impacts, it will be quite challenging for entities to address these issues while managing their businesses in this difficult time. Please contact your Raymond Chabot Grant Thornton advisor if you have any questions about the potential impacts and how we can help determine the actual impact on your entity.

Although the trade crisis will require taking into consideration a variety of issues when preparing an entity's financial statements, we believe that the four following issues will require particular attention from entities and financial statement preparers.

### **Impairment of assets**

Accounting standards require that long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. We think that the current situation may cause such events to occur for many entities and careful consideration should be given to the need to recognize impairment losses on assets, due to uncertainties or changes related to the Canada-U.S. trade crisis.

### **Measurement uncertainty**

Accounting standards define measurement uncertainty as the "uncertainty in the determination of the amount at which an item is recognized in financial statements." Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount. Uncertainties related to the developments in the economic crisis, in particular regarding its impact and duration, could lead to such measurement uncertainty. Accounting standards require disclosure in an entity's financial statements when a measurement uncertainty is material.

### **Going concern**

Accounting standards require management to perform an assessment of the entity's ability to continue as a going concern. In the situation where management intends or has no other realistic alternative but to liquidate the entity or to cease trading, the going concern basis is not appropriate for the preparation of the financial statements. If the going concern basis is not appropriate, another basis must be used, which is often the liquidation basis. The trade crisis and resulting uncertainties could cause material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, such as a decrease in gross margin or operating margin resulting from an increase in the cost of purchases, or a decrease in sales resulting from exports due to the imposition of tariffs. Accounting standards require disclosure of such uncertainties in the financial statements, and we believe that such disclosure will be more prevalent until there is greater certainty about the actual impacts of the economic crisis.

### **Debt covenants and ratios**

Accounting standards require that long-term debt with a measurable covenant violation be classified as a current liability unless specific conditions are met. The amounts recognized by an entity as assets, liabilities, revenues and expenses could be affected by the trade crisis and consequently lead to the violation of an entity's financial statement ratios and covenants. We expect many entities may be required to reclassify their long-term debt as a current liability due to the violation of such covenants or ratios.

## Appendix – Key financial reporting areas

Please refer to the authoritative guidance for each topic and consider the facts and circumstances specific to your entity when assessing potential impacts. This is not an exhaustive list and there may be other areas not included in this publication that your entity should consider. In addition, the topics presented are not necessarily listed in order of importance.

Potential impact of trade crisis	ASPE/ASNFPO reference
<b>Going concern</b>	
<ul style="list-style-type: none"> <li>■ At each reporting date, management is required to assess the entity's ability to continue as a going concern and, to do so, it shall consider all available information about the future, which is, at least, but not limited to, 12 months from the balance sheet date:               <ul style="list-style-type: none"> <li>● If management intends or has no realistic alternative but to liquidate the entity or to cease trading, the going concern basis is not appropriate and the financial statements will have to be prepared on another basis, e.g., a liquidation basis.</li> <li>● If there are material uncertainties about the entity's ability to continue as a going concern, the entity should include going concern disclosures in the notes to its financial statements.</li> </ul> </li> <li>■ The going concern assessment should also take into account the effects of events subsequent to the date of the financial statements as they may be so pervasive that the viability of the whole or a part of the entity's business could be brought into question. For example, a rapid deterioration in the results of operations or financial position after the date of the financial statements may indicate a need to consider whether the going concern assumption remains appropriate or whether there are now material uncertainties about the entity's ability to continue as a going concern that need to be disclosed.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 1400, General Standards of Financial Statement Presentation</li> <li>■ Section 1401, General Standards of Financial Statement Presentation for Not-for-Profit Organizations</li> <li>■ Section 3820, Subsequent Events</li> </ul>
<b>Impairment of financial assets (accounts receivable, loans receivable)</b>	
<ul style="list-style-type: none"> <li>■ Impairment is recognized if a debtor is specifically affected at the balance sheet date and collection is doubtful.</li> <li>■ It may be necessary to reconsider assumptions used in determining allowances as historical data may no longer be relevant for assessing future collections, given debtors' increased financial difficulty resulting from the trade crisis.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3856, Financial Instruments</li> </ul>
<b>Impairment of investments accounted for at cost or using the equity method</b>	
<ul style="list-style-type: none"> <li>■ The trade crisis could result in indicators of possible impairment requiring an impairment test, for example:               <ul style="list-style-type: none"> <li>● Significant financial difficulties experienced by the investee;</li> <li>● Probability that the investee will enter bankruptcy or other financial reorganization;</li> <li>● Economic instability in the investee's industry.</li> </ul> </li> <li>■ If an impairment test is required:               <ul style="list-style-type: none"> <li>● Reduce the carrying amount of the investment to the higher of (i) the present value of the cash flows expected to be generated by holding the investment, discounted using a current market rate of interest appropriate to the asset and (ii) the amount that could be realized by selling the asset at the balance sheet date.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3051, Investments</li> <li>■ Section 4450, Reporting Controlled and Related Entities by Not-for-Profit Organizations</li> </ul>

Potential impact of trade crisis	ASPE/ASNFO reference
<b>Impairment of long-lived assets, intangible assets and goodwill</b>	
<ul style="list-style-type: none"> <li>■ The trade crisis may result in indicators of possible impairment requiring an impairment test, for example: <ul style="list-style-type: none"> <li>● Reduced or suspended operations;</li> <li>● Decrease in demand;</li> <li>● Increase in production or operation costs;</li> <li>● Decrease in profitability;</li> <li>● Change of market (e.g., moving away from all or part of the U.S. market and concentrating activities on local customers) affecting the recoverable amount of a customer list or customer relationships acquired in a business combination.</li> </ul> </li> <li>■ If an impairment test is required (ASPE): <ul style="list-style-type: none"> <li>● An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value;</li> <li>● Cash flow forecasts must be updated to reflect the impact of the trade crisis;</li> <li>● Discount rates must be updated and reflect the revised cash flow risk;</li> <li>● A goodwill impairment loss recognized during a period cannot be subsequently reversed, even if the situation subsequently improves.</li> </ul> </li> <li>■ If an impairment test is required (ASNPO): <ul style="list-style-type: none"> <li>● The net carrying amount of the asset should be written down to the asset's fair value or replacement cost.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3063, Impairment of Long-lived Assets</li> <li>■ Section 3064, Goodwill and Intangible Assets</li> <li>■ Section 4433, Tangible Capital Assets Held by Not-for-Profit Organizations</li> <li>■ Section 4434, Intangible Assets Held by Not-for-Profit Organizations</li> <li>■ Section 4441, Collections Held by Not-for-Profit Organizations</li> </ul>
<b>Financial assets measured at fair value (e.g., equity investments) and financial liabilities measured at fair value (e.g., derivatives)</b>	
<ul style="list-style-type: none"> <li>■ Fair value must reflect market participant views and market data at the measurement date under current market conditions. There may be an increase in the amount of subjectivity involved in fair value measurements, especially those based on unobservable inputs. In some cases, greater use of unobservable inputs will be required because relevant observable inputs are no longer available (e.g., no recent comparable market transactions).</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3856, Financial Instruments</li> </ul>
<b>Prepaid expenses</b>	
<ul style="list-style-type: none"> <li>■ There may be prepaid expenses related to services or activities that are no longer expected to be received. These prepaid expenses may need to be written off.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 1000, Financial Statement Concepts</li> <li>■ Section 1001, Financial Statement Concepts for Not-for-Profit Organizations</li> </ul>

Potential impact of trade crisis	ASPE/ASNFP reference
<b>Inventory valuation</b>	
<ul style="list-style-type: none"> <li>■ Measurement at the lower of cost and net realizable value: <ul style="list-style-type: none"> <li>● Write-downs may be required due to the following factors: decrease in selling prices, lower inventory turnover rate, obsolescence, spoilage, damage caused by decrease in demand or suspended operations;</li> <li>● Write-downs could also result from an increase in the cost of inventory, due for example to customs duties paid upon acquisition.</li> </ul> </li> <li>■ Inventory costing: <ul style="list-style-type: none"> <li>● The allocation of fixed production overheads is based on the normal capacity of the production facilities. The amount of fixed overheads allocated to each unit of production is not increased because of a decrease in production or an idle plant. Unallocated overheads are expensed.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3031, Inventories</li> <li>■ Section 3032, Inventories Held by Not-for-Profit Organizations</li> <li>■ Section 3041, “Agriculture</li> </ul>
<b>Income taxes</b>	
<ul style="list-style-type: none"> <li>■ Recoverability of future income tax assets: <ul style="list-style-type: none"> <li>● A significant weakening of an entity’s financial position may indicate that the entity will not be able to generate sufficient taxable income to allow recognized future income tax assets to be realized, in which case the carrying amount of the future income tax asset is reduced to the amount that is considered more likely than not to be realized.</li> </ul> </li> <li>■ New government tax laws, incentives and credits, as well as changes to existing ones, need to be considered, if applicable.</li> <li>■ Adjustments to the financial statements due to the trade crisis, as explained elsewhere in this document, may impact the amount of future income tax assets and liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3465, Income Taxes</li> </ul>
<b>Debt modification and classification</b>	
<ul style="list-style-type: none"> <li>■ Some creditors may provide debtholders with the option to defer principal payments for a period of time or forego interest payments. Entities will need to assess whether the change in terms represents a modification or extinguishment of the debt obligation and revisit the portion of the debt that is considered current compared to its long-term debt.</li> <li>■ Debt covenants may be breached and, if no waiver is obtained from creditors, the debt should be classified as a current liability.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3856, Financial Instruments</li> <li>■ Section 1510, Current Assets and Current Liabilities</li> </ul>
<b>Measuring defined benefit assets or liabilities</b>	
<ul style="list-style-type: none"> <li>■ Entities will need to perform a new actuarial valuation, including an update of assumptions if they have decided to settle their obligations or to significantly reduce the number of active employees or the expected years of future service of active employees. However, a significant change in the interest rate used in determining the discount rate to measure the defined benefit obligation does not trigger a requirement for a new actuarial valuation.</li> <li>■ Plan assets are remeasured at their fair value at the balance sheet date.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3462, Employee Future Benefits</li> <li>■ Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations</li> </ul>

Potential impact of trade crisis	ASPE/ASNFPPO reference
<b>Restructuring, termination benefits and future operating losses</b>	
<ul style="list-style-type: none"> <li>■ Entities may decide to close facilities or terminate employees. In that case:               <ul style="list-style-type: none"> <li>● An entity may not record a restructuring provision;</li> <li>● An entity may need to recognize a provision for termination benefits if certain conditions are met.</li> </ul> </li> <li>■ Entities may expect a period of operating losses. Liabilities cannot be recognized for future operating losses.</li> <li>■ Lessees may cease using a leased asset but continue to incur lease costs for the remaining term of the lease without economic benefit to the entity. An entity may have to recognize a liability when the entity ceases to use the leased asset.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 1000, Financial Statement Concepts</li> <li>■ Section 1001, Financial Statement Concepts for Not-for-Profit Organizations</li> <li>■ Section 3290, Contingencies</li> <li>■ Section 3462, Employee Future Benefits</li> <li>■ Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations</li> </ul>
<b>Government assistance</b>	
<ul style="list-style-type: none"> <li>■ Governments could implement various programs to provide financial assistance to entities. The substance of each of these programs will need to be understood and analyzed to determine the appropriate accounting treatment of the assistance and timing of its recognition.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3800, Government Assistance</li> <li>■ Section 4410, Contributions – Revenue Recognition</li> </ul>
<b>Revenue recognition</b>	
<ul style="list-style-type: none"> <li>■ Revenue can only be recognized if collection is reasonably assured. The ability of potential customers to pay amounts that would be owing under sales contracts must be assessed, even for recurring customers, as their financial situation may change over time as a result of the trade crisis.</li> <li>■ Entities may begin offering price concessions and rebates to increase sales. Entities will need to assess the impact of store closures on their refund/return policies and estimates. Historical data should be questioned as to whether they still are a relevant indicator of future return behaviour.</li> <li>■ Losses on contracts accounted for using the percentage of completion method should be recognized when the total estimated contract costs are greater than the expected revenue.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3400, Revenue</li> <li>■ Section 4410, Contributions – Revenue Recognition</li> <li>■ Section 4420, Contributions Receivable</li> </ul>
<b>Foreign currency translation</b>	
<ul style="list-style-type: none"> <li>■ For practical purposes, entities may translate revenue earned and expenses incurred in a foreign currency using an average rate (e.g., a monthly or annual average). The use of an average rate should be revisited if significant fluctuations in exchange rates occurred during this period of economic uncertainty.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 1651, Foreign Currency Translation</li> </ul>
<b>Hedge accounting</b>	
<ul style="list-style-type: none"> <li>■ An entity may have to discontinue hedge accounting, for example, in the following situations:               <ul style="list-style-type: none"> <li>● The hedged item is an anticipated transaction and it is no longer probable that the anticipated transaction will occur at the time or in the amount designated;</li> <li>● Market volatility could result in the critical terms of the hedging item and the hedged item no longer being the same.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3856, Financial Instruments</li> </ul>

Potential impact of trade crisis	ASPE/ASNFP reference
<b>Stock-based compensation</b>	
<ul style="list-style-type: none"> <li>■ Given the current economic environment, entities may decide to lay-off employees or change the terms of stock-based payment awards. In addition, the likelihood that performance vesting conditions outlined in the awards arrangements will be met in the future may have changed. Entities will need to determine whether any of these changes could impact the recognition of the awards.</li> <li>■ A cancellation of stock-based payment awards, even if the vesting conditions are unlikely to be satisfied, may result in the immediate recognition of any unrecognized expense.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3870, Stock-based Compensation and Other Stock-based Payments</li> </ul>
<b>Contingent consideration</b>	
<ul style="list-style-type: none"> <li>■ Subsequent measurement and accounting for contingent consideration: <ul style="list-style-type: none"> <li>● An entity may wish to decrease the amount of a contingent consideration liability initially recognized at fair value as part of a business combination if the contingency (e.g., earnings target, etc.) on which the fair value had originally been established is now less optimistic. Section 1582 prohibits any subsequent downward (or upward) revaluation of a contingent consideration until the contingency is resolved. Until the contingency is resolved, however, the entity may be required to provide information on any contingent gain (or loss) in accordance with Section 3290.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Section 1582, Business Combinations</li> <li>■ Section 3290, Contingencies</li> </ul>
<b>Disclosure</b>	
<ul style="list-style-type: none"> <li>■ Many of the impacts of the trade crisis affecting the recorded amounts of an entity's assets, liabilities, revenues and expenses will require certain disclosures in the notes to the financial statements. These required disclosures are included in each of the relevant accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>■ Various standards</li> </ul>
<b>Subsequent events</b>	
<ul style="list-style-type: none"> <li>■ Events occurring between the balance sheet date and the date of completion of the financial statements must be assessed to determine whether they provide additional evidence relating to conditions that existed at the balance sheet date. If so, the financial statements should be adjusted. If not, note disclosures may be required.</li> </ul>	<ul style="list-style-type: none"> <li>■ Section 3820, Subsequent Events</li> </ul>

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