



PSAB AT A GLANCE

Section PS 3200 - Liabilities

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LIABILITIES

- There are three essential characteristics of liabilities:
 - They embody a duty or responsibility to others, that leaves a government little or no discretion to avoid settlement of the obligation;
 - The duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on the occurrence of a specified event or on demand; and
 - The transactions or events obligating the government have already occurred.
- Liabilities can arise from many types of obligations, such as:
 - Agreements and contracts;
 - Another government's legislation;
 - A government's own legislation;
 - Constructive obligations; and
 - Equitable obligations.

DISCRETION

- Professional judgment is needed in determining when a government has little or no discretion to avoid a constructive or equitable obligation. Consideration would be given to whether a government has created a valid expectation among others and has no realistic alternative but to settle the obligation as a result.
- A government would have little or no discretion to avoid these types of obligations when there is a preponderance of evidence that the government:
 - Acknowledges and indicates that it will act upon its decision to accept responsibility for the obligation; and
 - Has sufficiently communicated its decision to the affected parties.
 - Evidence that a government has acknowledged and will act upon its decision to accept responsibility for the obligation may include:
 - Past practices;
 - Established policies;
 - Cabinet minutes, orders-in-council, ministerial orders;
 - Approved plans;
 - Ministerial letters; and
 - Approval of legislation at various stages, such as first, second or third reading.
 - Evidence that a government has sufficiently communicated its decision and thus created a valid expectation among affected parties may include:
 - An announcement of the amount the government is providing;
 - Identification of the individuals, organizations or groups affected by the decision; and
 - An announcement of the time frame for implementing the decision.

SACRIFICE ECONOMIC BENEFITS

- The obligation to sacrifice economic benefits must be to a third party.
- The entity or individual must exist at the financial statement date. However, the specific identity of the party / parties involved does not need to be known by the government.
- Most obligations bind a single government, however, some obligations may be shared, with two or more government's being jointly and severally liable.
- The timing of the future sacrifice of economic benefits must be specified.

PAST TRANSACTIONS AND EVENTS

- A present obligation to sacrifice economic benefits can be distinguished from a future obligation by the fact that the obligating transaction or event occurred on or before the financial statement date.
- Normally an obligating transaction or event that arises from exchange agreements or contracts occurs at the point of exchange.
- When an obligating transaction or event occurs in non-exchange agreements and contracts it is often determined by the actions of others (i.e. meeting eligibility criteria).
- On its own, the existence of another government's legislation is not an obligating transaction or event.
- The existence of a government's own legislation that contains details of the government's policy in relation to a particular program is not an obligating transaction or event until the recipients meet the eligibility criteria or the transaction / event occurs.
- A past obligating transaction or event cannot be created by legislation that has retroactive application. Obligations resulting from such legislation are accounted for in the current period and not the period of the effective date of the legislation.

RECOGNITION

- Liabilities must be recognized in the financial statements when:
 - There is an appropriate basis of measurement; and
 - A reasonable estimate of the amount involved can be made.



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