



# PSAB AT A GLANCE

Section PS 3420 - Inter-entity Transactions

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Effective Date  
Fiscal periods beginning on or after April 1, 2017<sup>1</sup>

## SCOPE

Applies to:

- Accounting for and reporting transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

It may be useful to read this Section in conjunction with Section PS 2200, Related Party Disclosures <sup>2</sup>

Does not apply to:

- Restructuring transactions;
- Transactions between a partner and a partnership (see Section PS 3060, Interest in Partnerships)

## DEFINITIONS

**INTER-ENTITY TRANSACTIONS**

Transactions occurring between commonly controlled entities.

**COMMONLY CONTROLLED ENTITIES**

All public sector entities that comprise a government's reporting entity (see Section PS 1300, Government Reporting Entity).

**CARRYING AMOUNT**

The amount of an item transferred, or cost of services provided, as recorded in the accounts of the provider, after adjustments, if any, such as for amortization, impairment or changes in the fair value.

- For a tangible capital asset, the carrying amount is the net of cost and accumulated amortization.
- For other assets, the carrying amount may be the net of cost and valuation allowances or fair value, as appropriate.

**EXCHANGE AMOUNT**

The amount of the consideration given for the item transferred or service provided as established and agreed to by the related parties.

**FAIR VALUE**

The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

## RECOGNITION

**TRANSFER OF ASSETS OR LIABILITIES**

- Inter-entity transactions involving the transfer of assets or liabilities should be recognized by both the provider and the recipient.
- The provider removes the assets or liabilities from its financial statements and any difference between the net proceeds received and the carrying amounts transferred is accounted for as a revenue or expense in the statement of operations.
- The recipient recognizes assets or liabilities in its financial statements when the items satisfy the definition and recognition criteria for an asset and liability in Section PS 1000, Financial Statement Concepts.

**COST ALLOCATION AND RECOVERY**

- When there is a policy of cost allocation and recovery for the provision of goods and services:
  - The provider reports all revenues and expenses on a gross basis; and
  - The recipient reports expenses on a gross basis.

**UNALLOCATED COSTS**

- When there is no policy for allocating costs, the recipient may choose to recognize these costs when they would otherwise have been purchased and a reasonable estimate of the amount involved can be made.
- When the recipient chooses to recognize unallocated costs it reports these items as revenues and expenses.

<sup>1</sup> Earlier adoption of this Section is permitted. If application of the Section results in a change of accounting policy, Section PS 2120, Accounting Changes, applies.

<sup>2</sup> See also our publication PSAB AT A GLANCE: Section PS 2220 - Related Party Transactions.

**MEASUREMENT**

- Inter-entity transactions should be recorded at the carrying amount as determined at the transaction date unless:
  - Transactions are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length;
  - Assets or liabilities are transferred for nominal or no consideration;
  - Transactions are allocated costs and recoveries; or
  - Transactions are unallocated costs.

**TRANSACTIONS SIMILAR TO ARM'S LENGTH TRANSACTIONS**

- Inter-entity transactions should be recorded at the exchange amount when they are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length

**ASSETS OR LIABILITIES TRANSFERRED FOR NOMINAL OR NO CONSIDERATION**

- When inter-entity transactions involve the transfer of assets or liabilities for nominal or no consideration, they should be measured at the carrying amount by the provider and at the carrying amount or fair value by the recipient.
- Symmetrical accounting by the provider and recipient is not required.

**GAINS OR LOSSES ON TRANSFERRED ASSETS AND LIABILITIES**

- When there is a difference between the exchange amount and the carrying amount of a transferred or exchanged asset or liability, a gain or loss should be reported in the statement of operations.

**COST ALLOCATION OR RECOVERY**

- Allocated costs and recoveries should be measured at the exchange amount.

**UNALLOCATED COSTS**

- When recognized by the recipient, unallocated costs should be measured at the carrying amount or fair value unless policy, budget practices or accountability structures dictate otherwise.

**DISCLOSURE**

- An entity discloses information about inter-entity transactions, whether or not those transactions were given accounting recognitions, in accordance with the requirements of Section PS 2200, Related Party Disclosures.



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