



# PSAB AT A GLANCE

Section PS 1300 - Government Reporting Entity

# Section PS 1300 - Government Reporting Entity

## DEFINING THE GOVERNMENT REPORTING ENTITY

- The government reporting entity should comprise government components and those organizations that are controlled by the government.

## CONTROL

- The power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.
- It is assumed that when a government has the power to govern the financial and operating policies it expects to obtain a financial / non-financial benefit and it may also be exposed to the risk of loss.
- Control exists by virtue of the government's ability to exercise its power whether or not it chooses to do so.
- Control does not result just from the government having constitutional responsibility, but instead from the actual nature of the relationship.



## INDICATORS OF CONTROL

- The following indicators provide more persuasive evidence of control when the government:
  - Has the power to unilaterally appoint / remove a majority of the members of the governing body of the organization;
  - Has ongoing access to the assets of the organization, can direct the ongoing use of those assets, or has ongoing responsibility for the organization's losses;
  - Holds the majority of the voting shares or a "golden share" which confers the power to govern the financial and operating policies of the organization; and
  - Has the unilateral power to dissolve the organization and as a result access its assets and become responsible for its obligations.
- The following indicators may provide evidence of control when the government is able to:
  - Provide significant input into the appointment of members of the governing body of the organization by either:
    - Appointing a majority of those members from a list of nominees provided by others; or
    - By being otherwise involved in the appointment / removal of a significant number of members;
  - Appoint / remove the CEO or other key personnel;
  - Establish / amend the mission or mandate of the organization;
  - Approve the organization's business plans / budgets and require amendments on either a net or line-by-line basis;
  - Establish borrowing / investment limits or restrict the organization's investments;
  - Restrict the revenue-generating capacity of the organization, specifically the sources of revenue; and
  - Establish / amend policies the organization uses to manage, for example policies related to accounting, personnel, compensation, collective bargaining or deployment of resources.
- Control is not established solely by:
  - A government's ability to take temporary control of an organization in exceptional circumstances;
  - A government's ability to regulate an organization; or
  - An organization's financial dependence on a government.



## ACCOUNTING FOR GOVERNMENT COMPONENTS & GOVERNMENT ORGANIZATIONS

- A government's financial statements must consolidate the financial statements of governmental units that comprise the government reporting entity.
  - A **governmental unit** is a government component, government not-for-profit organization or other government organization. Government business enterprises are not governmental units.
  - Refer to Sections PS 2500, *Basic Principles of Consolidation*, and PS 2510, *Additional Areas of Consolidation*, for guidance on preparing consolidated financial statements.<sup>1</sup>
- Government business enterprises must be accounted for by the modified equity method.
  - Refer to Section PS 3070, *Investments in Government Business Enterprises*, for guidance on applying the modified equity method.<sup>2</sup>

## ACCOUNTING FOR INTERESTS IN PARTNERSHIPS

- When a government or government organization enters into a contractual arrangement with a party or parties outside of the reporting entity that meets the criteria of a partnership, the interest in the partnership is accounted for in accordance with Section PS 3060, *Interest in Partnerships*.<sup>3</sup>

## ACCOUNTING FOR PORTFOLIO INVESTMENTS

- When a government invests in portfolio investments, they are accounted for in accordance with Section PS 3041, *Portfolio Investments*, and Section PS 3450, *Financial Instruments*.<sup>4</sup>

## DISCLOSURE

- The financial statements of a government must disclose a list of the major components and organizations that comprise the reporting entity.
- This list must separately identify the organizations that are consolidated and those that are accounted for by the modified equity method.
- This list should be included in the notes or schedules of the government's financial statements.

## TRUSTS UNDER ADMINISTRATION

- Trusts administered by a government / government component / government organization must be excluded from the government reporting entity.
- A government's financial statements must disclose a description of any trusts under administration and a summary of trust balances. This disclosure should be provided in a note or schedule.
- In the case where the term "trusts" is used to refer to assets allocated as a result of a government policy decision and no trust liability exists, these assets are special funds that are part of the government reporting entity and as such they would be consolidated in the government's financial statements.

<sup>1</sup> See also our publication PSAB AT A GLANCE: *Consolidation*.

<sup>2</sup> See also our publication PSAB AT A GLANCE: Section PS 3070 - *Investments in Government Business Enterprises*.

<sup>3</sup> See also our publications PSAB AT A GLANCE: Section PS 3060 - *Interest in Partnerships*.

<sup>4</sup> See also our publications PSAB AT A GLANCE: Section PS 3041 - *Portfolio Investments* and PSAB AT A GLANCE: Section PS 3450 - *Financial Instruments*.



20 Wellington Street East  
Suite 500  
Toronto ON M5E 1C5  
416-865-0111  
[www.bdo.ca](http://www.bdo.ca)

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.