

PUBLIC SECTOR ACCOUNTING

A NEW GOVERNMENT TRANSFERS STANDARD

After an exposure draft and two re-exposure drafts, the Public Sector Accounting Board (PSAB) issued its revised standard on Government Transfers in March 2011. This publication discusses the main features of the revised standard.

Scope

The revised PS3410, Government Transfers, establishes the accounting for transfers to individuals, organizations and other governments from both the transferring and recipient government standpoint. Government transfers are transfers of monetary assets or tangible capital assets from a government for which the government making the transfer does not receive any goods or services directly; in return expect to be repaid in the future; or expect a direct financial return.

It is important to note that this standard applies to governments and those government organizations applying Public Sector Accounting Standards. However, Government Not-for-Profit Organizations (GNFPO)'s choosing to apply the PS4200 series of standards will apply PS4210, Contributions – Revenue Recognition, to amounts received from a government.

Recognition

The follow chart summarizes the recognition requirements for government transfers by transferors and recipients:

	Transferor	Recipient
When Recognize Transfer	Recognize as expense when: <ol style="list-style-type: none"> 1. Authorized; and 2. All eligibility criteria have been met. 	Recognize as revenue when: <ol style="list-style-type: none"> 1. Authorized; and 2. All eligibility criteria have been met EXCEPT To the extent that the transfer gives rise to a liability.

A decision tree laying out the recognition rules for recipients of government transfers is included in the Appendix.

Stipulations

Stipulations are imposed by a transferring government regarding the use of transferred resources or the actions a recipient must perform in order to keep a transfer. Stipulations will influence whether a liability or revenue is recognized. The determination as to whether a liability would arise is influenced by:

1. The stipulations of the transfer alone; or

Example - A recipient government (municipality) receives an operating transfer that requires it to use the funds for a specific purpose—such as, obtain an additional medical officer. If the entity has not used the funds for that specific purpose by the year-end date, then they essentially have a liability to the transferor until they use the funds for that purpose.

2. The stipulations of the transfer taken together with the actions and communications of the recipient government BEFORE the financial statement date.

Example – The Federal government makes a transfer to Provincial governments for health care programs. One provincial government plans to then provide all those monies to its municipalities for their health care programs. Any actions and communications the provincial government has made by the financial statement date (announcements of the funding to the municipalities, issuance of funds to some municipalities etc.) that are consistent with the substance and intent of the Federal government’s transfer terms can be considered when determining if it has a liability or not for the transfer it received.

For a capital transfer, revenue recognition will depend on the stipulations related to the transfer. The revenue recognition may occur over a period time in the following situations:

- A capital transfer that relates to the purpose of acquiring or developing a tangible capital asset;
- A capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years; or
- A transfer of a tangible capital asset that is to be used to provide services for a defined number of years.

Where the only stipulation is the acquisition or development of a tangible asset, revenue recognition will occur when the asset is acquired or over the period of development. In the case of a capital transfer relating to a non-depreciable asset, such as land, revenue will always be recognized when the asset is acquired.

Authorization

The recognition of government transfers cannot occur in any of the situations unless the transfer has been authorized. The chart below summarizes the authorization rules for transferors and recipients:

	Transferor	Recipient
Authorization occurs when there is evidence that:	<ol style="list-style-type: none"> 1. By the financial statement date, the government has made a decision such that they lost the discretion to avoid making the transfer; and 2. Either: <ol style="list-style-type: none"> a. The approved legislation, regulations or by-laws are in place; or a. Both of the following have been met: <ol style="list-style-type: none"> i. At the financial statement date, there is a preponderance of evidence that the government is demonstrably committed to approve the legislation, regulations or by-laws related to the transfer; and ii. The final approval of the legislation, regulations or by-laws occurs between the financial statement date and the financial statement completion date. 	<ol style="list-style-type: none"> 1. The approved legislation, regulation or by-law enabling the transfer is in place; and 2. By the financial statement date, the transferor has made a decision such that they lost the discretion to avoid making the transfer.

The second authorization scenario for transferring governments, noted above, should be a fairly rare occurrence. A government that announced a new transfer program close to the financial statement date, but the related legislation did not make it through all readings in parliament to be approved by the year-end date, is an example of such a situation. The second scenario also requires the transferring

government to have a preponderance of evidence that it is demonstrably committed to approve the legislation enabling the transfer; individual items of evidence may not be sufficient on their own to meet this requirement so each situation must be judged on its own merits.

As a result of having different authorization requirements for transferring and recipient governments, the scenario where a transferor recognizes a transfer earlier than the recipient of that transfer is possible.

Disclosures

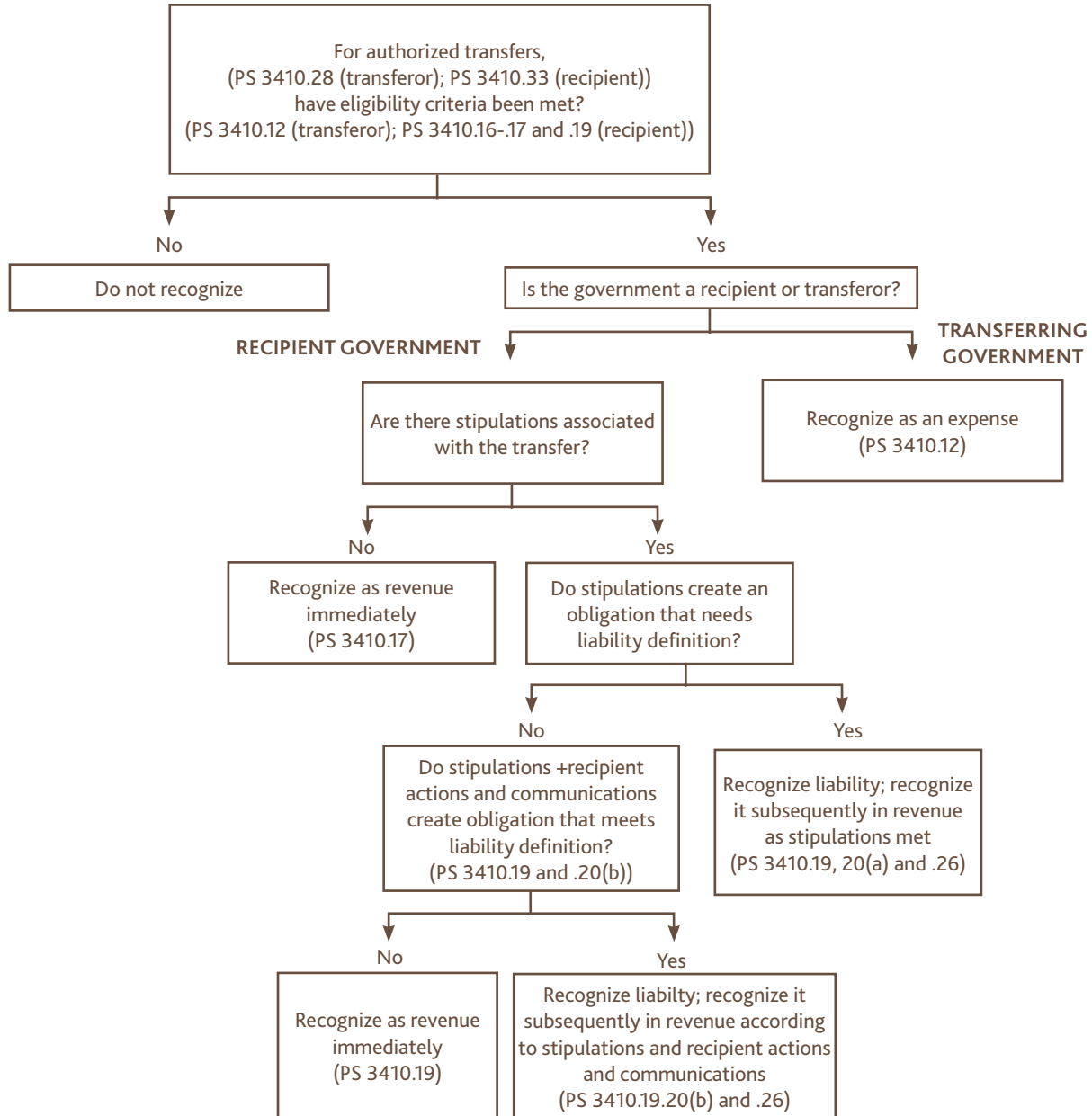
The standard requires disclosure of major kinds of transfers recognized during the period in the statement of operations (for example, health and social funding, shared cost programs, local government operating transfers, capital transfers). The standard also requires disclosure of the nature and terms of liabilities, if any, arising from government transfers received.

Effective Date

The revised standard applies to fiscal periods beginning on or after April 1, 2012 and it may be applied retroactively or prospectively. Early adoption is permitted.

Appendix

Decision Tree for Recognition of Government Transfers for Recipients



The information in this publication is current as of April 14, 2011.

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