PSAB AT A GLANCE
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This publication has been compiled to assist users in gaining a high level overview of public sector accounting standards included in the CPA Canada Public Sector Accounting Handbook as of December 1, 2015.

Not every standard in the Public Sector Accounting Handbook is included in this PSAB at a Glance publication. This publication focuses on recognition, measurement and presentation of public sector accounting standards and does not cover disclosure requirements. Many of the public sector accounting standards that are not included in this publication are focused on disclosure.
# PSAB at a Glance

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Section PS 1201 - Financial Statement Presentation

GENERAL REPORTING PRINCIPLES

- A government’s financial statements must be clearly identified and an acknowledgement of the government’s responsibility for their preparation must either be included in the government’s financial statements or must accompany them.
- Any information required for the fair presentation of a government’s financial position, results of operations, remeasurement gains and losses, change in net debt and cash flow must be presented in the financial statements.
- Financial statements must be presented in a form, use terminology and classify items in such a way as to ensure that significant information is readily understandable.
- A comparison of current period amounts with prior period amounts must be presented.
- Prior period information should be reported on a basis and scope consistent with current period information.
- The bases used in determining the reported amounts of assets and liabilities must be applied consistently. The bases must be disclosed if they are not self-evident.
- A change to the bases used would only occur when it results in more appropriate presentation.
- Refer to PS 2120, Accounting Changes, for guidance and disclosure on changes in accounting policies.
- Financial statements must be issued on a timely basis.
- The auditor’s report must be appended to the financial statements when they are subject to an independent audit. When financial statements are unaudited they must be clearly identified as such.
- The substance of transactions and events must be presented in the financial statements.
- When legislation requires certain transactions / balances be accounted for in a manner that does not reflect their substances, special purpose financial statements / reports would be prepared to meet the legislative requirements.

STANDARDS OF PRESENTATION AND DISCLOSURE

COMPONENTS OF FINANCIAL STATEMENTS

- Financial statements include:
  - A Statement of Financial Position
  - A Statement of Operations
  - A Statement of Remeasurement Gains and Losses
  - A Statement of Change in Net Debt
  - A Statement of Cash Flow
  - Notes
  - Schedules
- Notes and schedules integral to the financial statements must be clearly identified. These notes and schedules have the same significance as the information included in the body of the statements. Notes and supporting schedules must not be used as a substitute for proper accounting treatment.

REPORTING FINANCIAL POSITION

- The Statement of Financial Position must report net debt and the accumulated surplus / deficit. Together these two indicators explain the government’s financial position at the end of the reporting period.
- Liabilities and financial assets must be reported in the Statement of Financial Position. The difference between them is reported as the measure of the government’s net debt.
- The Statement of Financial Position must report non-financial assets below the net debt indicator. The sum of the government’s net debt and its non-financial assets is accounted for and reported as the accumulate surplus / deficit of the government at the end of the accounting period. This represents the government’s net assets.
- A government must report the following additional information about the composition of its accumulate surplus / deficit at the financial statement date:
  - The accumulated operating surplus / deficit; and
  - The accumulated remeasurement gains and losses.
- Information on contractual obligations and contingencies must also be provided.
**LIABILITIES**

- Must be reported in the Statement of Financial Position segregated by main classifications such as:
  - Accounts payable and accrued liabilities;
  - Liabilities for employee future benefits;
  - Deferred revenue;
  - Borrowings; and
  - Loans from other governments.

- Adequate information on the nature and terms of the government’s liabilities must be disclosed.

**ASSETS**

**FINANCIAL ASSETS**

- Must be reported in the Statement of Financial Position segregated by main classifications such as:
  - Cash and cash equivalents;
  - Revenues receivable;
  - Inventories for resale and other assets held for sale that meet the requirements of paragraph PS 1201.055;
  - Loans to other governments;
  - Other loans;
  - Portfolio investments;
  - Investments in government business enterprises; and
  - Investments in government business partnerships.

- Adequate information on the nature and terms of the government’s financial assets together with any valuation allowance must be disclosed.

- To reflect financial assets at their net recoverable or other appropriate value, valuation allowances must be used.

- When all the following criteria are met an asset held for sale must be recognized as a financial asset:
  - The government body, management board or an individual with the appropriate level of authority commits the government to selling the asset before the date of the financial statements;
  - The asset is in a condition to be sold;
  - The asset is publicly seen to be for sale;
  - An active market for the asset exists;
  - A plan for selling the asset is in place; and
  - The sale of the asset to a purchaser external to the government reporting entity is reasonably anticipated to be completed within one year of the financial statement date.

**NON-FINANCIAL ASSETS**

- Must be reported in the Statement of Financial Position segregated by main classifications such as:
  - Tangible capital assets;
  - Inventories held for consumption or use; and
  - Prepaid expenses.

- The nature of government non-financial assets must be disclosed in the financial statements as assets that are normally employed to provide future services.

- Any asset that meets the following criteria must be recognized as a non-financial asset:
  - It is not held for sale as described in paragraph PS 1201.055; and
  - It would otherwise meet the definition of a tangible capital asset except for its ability to contribute to the net cash inflows of the government;

- The fact that all intangibles and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, are not recognized in government financial statements must be disclosed.

**CONTRACTUAL OBLIGATIONS**

- Obligations of a government to others that will become liabilities when the terms of those contracts / agreements are met (refer to PS 3390, Contractual Obligations, for more guidance).

**CONTRACTUAL RIGHTS**

- Rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future (refer to PS 3380, Contractual Rights, for more guidance).
### Reporting Changes in Financial Position

- Together the Statement of Operations, the Statement of Remeasurement Gains and Losses, the Statement of Change in Net Debt and the Statement of Cash Flows explain the change in a government’s liabilities and assets in the accounting period.

### Reporting Operations

- The Statement of Operations must:
  - Report revenues, other than remeasurement gains, of the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments;
  - Report expense, other than remeasurement losses, of the period by function or major program;
  - Account for the difference between revenues and expenses reported in the Statement of Operations in the period, as the measure of the operating surplus / deficit for the period; and
  - Report the accumulated operating surplus / deficit at the beginning and end of the period, unless these figures are reconciled with the surplus / deficit for the period on a separate statement.

### Revenues

- Revenues, including gains, must be recognized in the period when the transactions / events that gave rise to the revenues occurred.
- Gains are usually recognized when they are realized in the Statement of Operations.
- When items are not practicably measurable until cash is received they are accounted for at that time.
- The gross amount of revenues must be disclosed in the financial statements.
- Except for tax concessions as described in Section PS 3510, *Tax Revenue*.

### Expenses

- The gross amount of expenses must be disclosed in the financial statements.

### Losses Arising from Asset Impairment and Changes in Valuation Allowances

- Must be recognized as expenses in the Statement of Operations in the accounting period.
- A change in the value of a financial asset attributable to a remeasurement gain / loss must be reported in the Statement of Remeasurement Gains and Losses.

### Reporting Remeasurement Gains and Losses

- The Statement of Remeasurement Gains and Losses must report:
  - Accumulated remeasurement gains and losses at the beginning of the period;
  - Remeasurement gains and losses during the period, distinguishing between:
    - Amounts that arose during the period; and
    - Amounts that were reclassified to the Statement of Operations during the period;
  - Any other comprehensive income that arises when a government includes the results of government business enterprises and government business partnerships in its summary financial statements; and
  - Accumulated remeasurement gains and losses at the end of the period.

- Remeasurement gains and losses during the period that are reported in the Statement of Remeasurement Gains and Losses are distinguished between:
  - Exchange gains and losses on items in the amortized cost category that are denominated in a foreign currency; and
  - Changes in the fair value of:
    - Derivatives;
    - Portfolio investments in equity instruments quoted in an active market; and
    - Financial instruments designated to the fair value category,
  - No separate disclosure is made of the exchange gain or loss for an item designated in the fair value category that is denominated in a foreign currency.
REPORTING CHANGES IN NET DEBT

The Statement of Changes in Net Debt must report:

- The extent to which expenditures of the accounting period are met by the revenues recognized in operations for the period; and
- The extent to which net debt changed due to net remeasurement gains and losses in the accounting period.
- The acquisition of tangible capital assets in the accounting period.
- Other significant items explaining the difference between the operating surplus / deficit for the accounting period and the change in net debt in the period (i.e. amortization on tangible capital assets). Refer to paragraph PS 1201.101 for additional examples.
- Net debt at both the beginning and end of the accounting period.
- When a government’s financial assets exceed its liabilities a government refers to this statement as the Statement of Changes in Net Financial Assets instead of the Statement of Changes in Net Debt.

REPORTING CASH FLOW

The Statement of Cash Flow must report:

- How a government generated and used cash and cash equivalents in the accounting period.
- The change in cash and cash equivalents in the period.
- The cash and cash equivalents both at the beginning and end of the accounting period.
- Cash flows during the period classified by operating, capital, investing and financing activities.
- Cash flows from operating activities can be reported using either the direct method or the indirect method (refer to paragraphs PS 1201.112-.113 for more guidance).
- When a government uses the indirect method and there is a significant difference between interest revenue or expense recognized in the Statement of Operations and the interest receipt or payment recognized in the Statement of Cash Flows the amount of this difference and the reason for it must be disclosed in the financial statements.
- Major classes of gross cash receipts and gross cash payments that arise from capital, investing or financing activities, except where cash flows described in paragraphs PS 1201.120-.121 (described below) are presented on a net basis, must be reported separately in the Statement of Cash Flow.
- Cash flows resulting from the following operating, capital, investing or financing activities may be presented on a net basis:
  - When cash flows from cash receipts collected and payments made on behalf of entities external to the government reporting entity, including taxpayers and beneficiaries, reflect the activities of the external party instead of those of the government; and
  - Refer to paragraph PS 1201.122 for examples.
- Cash receipts and payments for items with rapid turnover, large amounts and short maturities.
- Refer to paragraph PS 1201.123 for examples.
- Cash flows resulting from interest paid on debt issued on behalf of a government business enterprise and the interest received from that government business enterprise must be presented on a net basis when the debt meets the criteria in paragraph PS 3230.12, Long-Term Debt.
- When capital, investing and financing transactions do not use cash or cash equivalents, such transactions must be excluded from the Statement of Cash Flow. Instead, these transactions must be disclosed in the financial statements in a way that provides all the relevant information about these capital, investing and financing activities.
- The components of cash and cash equivalents must be disclosed in the financial statements and a reconciliation of the amounts in the Statement of Cash Flow to the equivalent items presented in the Statement of Financial Position must be provided. The policy the government adopted that determines the composition of cash and cash equivalents must be disclosed.

REPORTING LEGISLATIVE CONTROL AND FINANCIAL ACCOUNTABILITY

COMPARISON OF ACTUAL AND BUDGETED RESULTS

- A comparison of the results for the accounting period to those originally planned must be presented in the Statement of Operations. The planned results presented must be for the same scope of activities and on a basis consistent with that used for actual results.
- A comparison of the items that comprise the change in net debt for the accounting period, as well as, the change in net debt for the period, with the figures originally planned must be presented in the Statement of Net Debt. The planned amounts presented must be for the same scope of activities and on a basis consistent with that used for actual results.

REPORTING ON LEGISLATIVE AUTHORITY

- Information showing where a government has exceeded its revenue, borrowing, investing, expense or expenditure authority limits must be disclosed in the financial statements.

REPORTING ON FUNDS AND RESERVES

- Funds and reserves are disclosed in accordance with the guidance provided in PSG-4, Funds and Reserves.
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 exits 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 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.
- Refer to Sections PS 2500, Basic Principles of Consolidation, and PS 2510, Additional Areas of Consolidation, for guidance on preparing consolidated financial statements.1
- 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.2

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.3

DISCLOSURE

- The financial statements of a government must disclose a list of the major 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 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.

1 See also our publication PSAB AT A GLANCE: Consolidation.
2 See also our publication PSAB AT A GLANCE: Section PS 3070 - Investments in Government Business Enterprises.
3 See also our publications PSAB AT A GLANCE: Section PS 3041 - Portfolio Investments and PSAB AT A GLANCE: Section PS 3450 - Financial Instruments.
Section PS 2120 - Accounting Changes

**SCOPE**

PS 2120 applies to accounting for and disclosing:
- A change in accounting policy;
- A change in accounting estimate; and
- A correction of an error relating to prior period financial statements.

**CHANGE IN ACCOUNTING POLICY**

- **Accounting policies** are the specific principles and methods applied by a government in preparing its financial statements.
- Accounting policies are presumed to be consistently applied within each accounting period and between one period and the next.
- A change in accounting policy may occur when a government:
  - Conforms to a new Public Sector Accounting Standard;
  - Adopts Public Sector Accounting Standards for the first time; or
  - Considers the change will result in a more appropriate presentation of events / transactions in the financial statements.
- The following are not considered changes in accounting policy:
  - The initial adoption / alternation of an accounting policy required by events / transactions that are clearly different in substance than those that previously occurred;
  - The initial adoption of an accounting policy resulting from events / transactions that occurred for the first time or that were previously immaterial; and
  - A change in classification of an item in the financial statements.
- There are three ways of recognizing a change in accounting policy:
  - Prospective application;
  - Retroactive application with no restatement of prior periods; and
  - Retroactive application with restatement of prior periods.
  - Refer to paragraph PS 2120.06 for more details on each method.
- The standards in Section PS 2120 do not override any specific provisions related to prospective or retroactive application in other Public Sector Accounting Standards.
  - When a change in accounting policy is as a result of conforming to a new Public Sector Accounting Standards or as a result of adopting Public Sector Accounting Standards for the first time, the new standards may be applied retroactively or prospectively.
  - When a choice is available between two or more appropriate principles or methods used in their application and a voluntary change is made, the new accounting policy should be applied retroactively with restatement, unless the necessary financial data cannot be reasonably determined.
  - When a change in accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes must be restated to give effect to the new accounting policy, except when the effect of new accounting policy cannot be reasonably determined for the individual prior periods. When this occurs, an adjustment is made to the opening balance of the accumulated surplus / deficit of the current period or the earliest period appropriate to reflect the cumulative effect of the change on the prior periods.

**DISCLOSURE**

- The following must be disclosed for each change in accounting policy in the current period:
  - A description of the change;
  - The effect of the change on the financial statements of the current period; and
  - The reason for the change.

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1 That is, when moving from a non-GAAP basis of accounting or in circumstances other than those described in paragraph PS 2120.04.
Changes in estimates occur as a result of the periodic preparation of financial statements.

The effect of a change in accounting estimate must be accounted for in:

- The period of the change, if the change affects the results of that period only; and
- The period of the change and applicable future periods, if the change affects the financial results of both current and future periods.

When a change in accounting estimate is rare or unusual and may have an effect on both current and future period financial results, disclosure of the nature and effect on the current period may be desirable.

The following must be disclosed when a change in an accounting policy has been applied retroactively and prior periods have been restated:

- The fact that the prior periods presented in the financial statements have been restated; and
- The effect of the change on the prior periods.

The following must be disclosed when a change in an accounting policy has been applied retroactively but prior periods have not been restated:

- The fact that the prior periods presented in the financial statements have not been restated; and
- The cumulative adjustment to the opening balance of the accumulated surplus / deficit of the current period.

Disclosure must be made of a change in an accounting policy that has not been applied retroactively.

Disclosure must be made of particulars, including dollar amounts, for each change in an accounting policy. Items cannot be netted when considering materiality.

Disclosure must be made of a change in an accounting policy that does not have a material effect in the current period but that will likely have a material effect in future periods.

The following must be disclosed when there has been a correction in the current period of an error in prior period financial statements:

- A description of the error;
- The effect of the correction of the error on the financial statements of the current and prior periods; and
- The fact that the financial statements of the prior periods presented have been restated.

Disclosure of the effect of the correction of the error on significant items such as change in net debt may also be appropriate depending on the nature of the error.

Per paragraph PS 2120.31, when an issue is raised with a government by its auditor in one period but not corrected by the government until a subsequent period, this is not an error for purposes of this Section. Instead, the issue is accounted for in the period in which the correction is made.
# Section PS 2125 - First-time Adoption

**Effective Date**
Fiscal years beginning on or after January 1, 2011

## SCOPE
- Section PS 2125 applies to the first set of financial statements a government component, government organization or government partnership prepares in accordance with Public Sector Accounting Standards (PSAS).

## GENERAL REQUIREMENTS
- Select PSAS accounting policies - using latest version of the standards that are currently effective at the reporting date of the government organization’s first financial statements prepared under PSAS.
- Recognize / derecognize assets and liabilities where necessary so as to comply with PSAS.
- Reclassify items that the government organization recognized under its previous accounting framework as one type of asset or liability, but are a different type of asset or liability under PSAS.
- Remeasure all assets and liabilities recognized under PSAS.
- An opening Statement of Financial Position is prepared at the date of transition to PSAS.
- The date of transition is the beginning of the earliest period for which a government organization presents full comparative information under PSAS.

## OPTIONAL EXEMPTIONS
- A government organization may elect to use one or more of the following exemptions upon adoption of PSAS:
  - Retirement and post-employment benefits;
  - Business combinations;
  - Investments in government business enterprises;
  - Government business partnerships; and
  - Tangible capital asset impairment.

## MANDATORY EXCEPTIONS
- Section PS 2125 prohibits retrospective application in relation to accounting estimates.

## RECOGNITION AND MEASUREMENT

## ACCOUNTING POLICIES
- Use the same accounting policies in the opening Statement of Financial Position prepared in accordance with PSAS and throughout all periods presented in the first PSAS financial statements, except for:
  - Section PS 3450, Financial Instruments, which is applicable to government organizations for fiscal years beginning on or after April 1, 2012 (earlier adoption is encouraged).
  - When a government organization adopts Section 3450 in the same period that it first transitions to PSAS, Section PS 3450 cannot be applied retroactively. Instead comparative amounts are presented in accordance with the accounting policies applied by the government organization immediately prior to its adoption of PSAS.
  - Those accounting policies must comply with each PSAS effective at the end of the first reporting period in accordance with PSAS.
  - If the accounting policies a government organization uses in its opening Statement of Financial Position prepared in accordance with PSAS differ from those used for the same date under its previous accounting policies, any resulting adjustments are recognized directly in accumulated surplus / deficit at the date of transition.

## PRESENTATION AND DISCLOSURE
- A government organization’s first set of financial statements in accordance with PSAS are required to present three Statements of Financial Position.
- In the year of adoption of PSAS a government organization must disclose:
  - The amount of each charge to accumulated surplus / deficit at the date of transition resulting from the adoption of PSAS and the reason therefor; and
  - A reconciliation of net income reported in the government organization’s most recent previously issued financial statements to its annual surplus / deficit under PSAS for the same period.
- The disclosures must provide sufficient detail to enable users to understand the material adjustments to the Statement of Financial Position, Statement of Operations and Statement of Cash Flows.
- All exemptions used by the government organization must be disclosed.

## TRANSITIONAL PROVISIONS
- This Section does not apply to a change in accounting policy in a government organization’s first Public Sector Accounting Standards financial statements to conform to new Public Sector Accounting Standards issued after August 2010.
# Section PS 2200 - Related Party Disclosures

## Scope

**Does not apply to:**
- Restructuring transactions;
- For consolidated financial statements, transactions that are eliminated on consolidation and those with entities accounted for under the modified equity method; and
- Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered.

## Related Party

- Can be an entity or an individual.
- A related party exists when one party has the ability to exercise control or shared control over the other.
- Two or more parties are related when they are subject to common control or shared control.
- Related parties also include key management personnel, including directors, and close family members of those individuals.
- For examples of the most common related parties of a reporting entity refer to paragraph PS 2200.07.

## Related Party Transaction

- A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition.
- The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

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## Disclosure

### When to Disclose

- Not all related party relationships or transactions occurring between related parties are required to be disclosed.
- Disclosure is generally required when:
  - A transaction occurs between related parties at a value different from that which would have been arrived at if the parties were unrelated; and
  - The transaction has or could have a material financial effect on the financial statements.

### Factors to Consider

- Factors to consider in determining whether information about transactions occurring between related parties would need to be disclosed in the financial statements include, but are not limited to:
  - Whether the transactions are undertaken on different terms and conditions that it is reasonable to expect would have been adopted if the parties were dealing at arm's length in the same circumstances;
  - The materiality of the effect the transactions, individually or taken as a whole, have or could have on the entity's financial position and changes in financial position reported in financial statements;
  - The relevance of the information to the decisions of users and their evaluation of the financial effect or potential financial effect of the transactions on the financial statements of the entity;
  - The contribution the information would have to users' understanding of the operating environment and the financial statements of the entity; and
  - The need for the information to enable users to compare the entity's financial position and changes in financial position reported in financial statements with that of other entities.

### What to Disclose

- When it is determined that information about related party transactions needs to be disclosed in the financial statements, the disclosure would include the following:
  - Adequate information about the nature of the relationship with related parties involved in related party transactions;
  - The types of related party transactions that have been recognized;
  - The amounts of the transactions recognized classified by financial statement category;
  - The basis of measurement used;
  - The amount of outstanding balances and the terms and conditions attached to them;
  - Contractual obligations with related parties, separate from other contractual obligations;
  - Contingent liabilities involving related parties, separate from other contingent liabilities; and
  - The types of related party transactions that have occurred for which no amount has been recognized.
- Items of a similar nature should be disclosed in aggregate.

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1 Earlier adoption of this Section is permitted. This Section would be applied prospectively.
Section PS 2400 - Subsequent Events

SCOPE
- This section applies to events that occur between the financial statement date and the date of their completion.

TYPES OF SUBSEQUENT EVENTS
- The extent to which, and the manner in which, the effect of a subsequent event is reflected in the financial statements depends on its type.
- There are two types of subsequent events:
  - Those that provide further evidence of conditions that existed at the financial statement date; and
  - Those that are indicative of conditions that arose subsequent to the financial statement date.

ACCOUNTING TREATMENT
- Financial statements are complete when:
  - A complete set of financial statements, including all required note disclosures, has been prepared (See Section PS 1201, Financial Statement Presentation);
  - All final adjusting journal entries have been reflected in the financial statements;
  - No changes to the financial statements are planned or expected; and
  - The financial statements meeting the above requirements have been approved in accordance with the government’s process to finalize its financial statements.
- When events occurring between the date of the financial statements and the date of their completion provide sufficient additional evidence relating to conditions that existed at the date of the financial statements, the financial statements must be adjusted.

DISCLOSURE
- Financial statements should not be adjusted, but disclosure is required for events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:
  - Cause significant changes to assets or liabilities in the subsequent period; or
  - Will, or may, have a significant effect on the future operations of the government.
- The disclosure must include:
  - A description of the nature of the event; and
  - An estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made.

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1 See also our publication PSAB AT A GLANCE: Section PS 1201 - Financial Statement Presentation.
**Consolidation**

### GOVERNMENTAL UNIT
- A governmental unit is a government component, government not-for-profit organization or other government organization.

### BASIC PRINCIPLES OF CONSOLIDATION
- Government financial statements must consolidate governmental units line-by-line on a uniform basis of accounting after eliminating inter-governmental unit transactions and balances.
- Transactions and balances between governmental units and government business enterprises are not eliminated (see Section PS 3070, *Investments in Government Business Enterprises*). However, unrealized gains and losses that arise on transactions between governmental units and government business enterprises that remain within the reporting entity must be eliminated.

### BASIC STEPS OF CONSOLIDATION
- The basic steps of consolidation are as follows:
  - Accounting policies of governmental units are conformed to those of the government;
  - Balances of assets, liabilities and accumulated surplus / deficit of the governmental units are added together and included in the consolidated Statement of Financial Position for the government reporting entity;
  - Revenues and expenses of the governmental units are added together and reported in the consolidated Statement of Operations and the consolidated Statement of Remeasurement Gains and Losses; and
  - The effects of inter-governmental unit transactions on assets, liabilities, accumulated surplus / deficit, revenues and expenses are eliminated.

  The following effects of transactions between governmental units are required to be eliminated upon consolidation:
  - Inter-governmental unit assets and liabilities, including any investments in governmental units recorded by other governmental units in the form of shares or contributed surplus;
  - Inter-governmental unit revenues and expenses, including transfers and internal charges;
  - Any inter-governmental unit dividends that have been declared; and
  - Unrealized inter-governmental unit gains and losses, including those related to inter-governmental unit sales or transfers of tangible capital assets.

### STATEMENTS AT DIFFERENT DATES
- When it is not possible to use governmental unit financial statements for a period that substantially coincides with that of the government’s financial statements for the purposes of consolidation, this fact must be disclosed as well as the period covered by the governmental unit financial statements used.
- When the fiscal period of a governmental unit is not the same as that of the government reporting entity, events and transactions of the governmental unit that have occurred during the intervening period and which significantly affect the government reporting entity’s financial position or results of operations must be recorded in the government’s financial statements.

### NON-CONTROLLING INTEREST
- The government reporting entity includes a governmental unit in which a non-controlling interest exists, in its financial statements on a proportionate consolidation basis (refer to paragraphs PS 2510.06-.07 for additional guidance).
- The existence and extent of a non-controlling interest in a governmental unit must be disclosed in the government’s financial statements.
- **Losses in a governmental unit with a non-controlling interest**
  - When accumulated losses related to the non-controlling interest in a governmental unit exceed the non-controlling interest’s share in the capital of the governmental unit, the excess of any further losses otherwise applicable to the non-controlling interest must be allocated only to the government’s interest.
  - Subsequent earnings must be allocated entirely to the government’s interest until the previously absorbed losses attributable to the non-controlling interest have been recovered.
  - Any accumulated losses accounted for as described above must be disclosed in the government’s financial statements.

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1. Includes Section PS 2500, *Basic Principles of Consolidation*, and Section PS 2510, *Additional Areas of Consolidation*.
2. See also our publication PSAB AT A GLANCE: Section PS 3070 - *Investments in Government Business Enterprises*. 

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ACQUISITIONS & APPLYING THE PURCHASE METHOD

- Acquired governmental units must be consolidated into the government’s financial statements line-by-line on a uniform basis of accounting, after inter-governmental unit transactions and balances have been eliminated in accordance with paragraphs PS 2500.08-.18, and after taking into account paragraph PS 2510.31.

- Determining the purchase cost
  - The fair value of the consideration given determines the purchase cost of a governmental unit to a government. When the fair value of the consideration is not clearly evident, the purchase cost to the government is the government’s share of the fair value of the net assets acquired.
  - The purchase cost and the amounts assigned to assets acquired and liabilities assumed must be determined as of the acquisition date.
  - For the period in which a purchase of a governmental unit occurs, the government financial statements must reflect the government’s proportionate share of the results of the acquired governmental unit from the date of acquisition.

- Allocating the purchase cost
  - The government’s interest in identifiable assets acquired and liabilities assumed must be based on their fair values at the date of acquisition.
  - When there is a difference between the purchase cost and the government’s share of the fair value of the net assets of the acquired governmental unit:
    - Any excess of the purchase cost over the government’s interest in the identifiable assets acquired and liabilities assumed, based on their fair values, must be accounted for as a purchase premium and recognized as an expense in the period of acquisition.
    - Such that the government’s interest in the identifiable assets acquired and liabilities assumed, based on their fair values, exceeds the purchase cost, the amount assigned to identifiable non-monetary assets must be reduced to the extent that the excess is eliminated.

- Expenses related to the acquisition
  - Expenses that are incurred directly as a result of an acquisition of a governmental unit accounted for as a purchase must be included as part of the purchase cost.

- Inter-governmental unit transactions and balances
  - Any balances between existing governmental units and a newly acquired governmental unit at the date of acquisition must be eliminated upon consolidation.
  - When gains and losses arising from transactions with the newly acquired governmental unit that took place prior to the date of acquisition are included in the carrying value of the assets of an existing governmental unit, these gains and losses are not eliminated unless the transactions were made in contemplation of the acquisition.

SALE OF ALL OR PART OF A GOVERNMENT’S INVESTMENT IN A GOVERNMENTAL UNIT

- When all or part of a government’s investment in a governmental unit is sold, the gain or loss on the sale must be based on the carrying value of the governmental unit’s net assets in the consolidated Statement of Financial Position at the date of sale.
- The gain or loss on the sale of all or part of an investment in a governmental unit must be included in the determination of consolidated operating results in the period of sale.

WHEN A GOVERNMENT UNIT BECOMES A GOVERNMENT BUSINESS ENTERPRISE

- When a government unit becomes a government business enterprise it is accounted for by the modified equity method in accordance with Section PS 1300, Government Reporting Entity.
- When a governmental unit’s status changes to a government business enterprise the change cannot:
  - Create revenue; or
  - Result in reporting tangible capital assets that would improve the net financial position of the government reporting entity.
    - Refer to paragraphs PS 2510.46-.49 for more guidance.
- When the government’s net investment balance increases / decreases due to a change in the status of a governmental unit to a government business enterprise, the amount of the increase / decrease is accounted for as an adjustment to the opening balance of accumulated surplus / deficit.
- A description of the change, including details of changes to the recorded amounts of individual financial statement items, must be disclosed.

3 See also our publication PSAB AT A GLANCE: Section PS 1300 - Government Reporting Entity.
Section PS 2601 - Foreign Currency Translation

DEFINITIONS

FOREIGN CURRENCY TRANSACTIONS
- Transactions of the government whose terms are denominated in a currency other than its reporting currency.
- They include transactions arising when a government either:
  - Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
  - Becomes a party to a contract involving foreign currencies.

EXCHANGE GAIN OR LOSS
- The difference that arises when a monetary item denominated in a foreign currency or a non-monetary item denominated in a foreign currency that is included in the fair value category in accordance with Section PS 3450, Financial Instruments, is settled or translated at an exchange rate different from that at which it was previously recorded or carried.

REMEASUREMENT GAINS AND LOSSES
- Include revenues and expenses arising:
  - When prior to an item's settlement an exchange gain or loss is recognized in accordance with the provisions of this Section; and
  - When financial instruments in the fair value category are remeasured in accordance with Section PS 3450, Financial Instruments.

ACCOUNTING

INITIAL RECOGNITION
- At the transaction date, each asset, liability and amount reported in the Statement of Operations arising from a foreign currency transaction of the government must be translated into Canadian dollars by applying the exchange rate in effect at that date.

SUBSEQUENT FINANCIAL STATEMENT DATES
- At each financial statement date, the following must be adjusted to reflect the exchange rate in effect at that date:
  - Monetary assets and monetary liabilities denominated in a foreign currency; and
  - Non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450, Financial Instruments.

EXCHANGE GAINS AND LOSSES
- Arise due to changes in the foreign exchange rate between the transaction date and the subsequent financial statement dates.
- Must be accounted for in the financial statements.
- There is uncertainty during the life of a foreign currency denominated item as to the actual gain or loss that will arise upon settlement.

PRESENTATION
- An exchange gain or loss that arises prior to settlement is recognized in the Statement of Remeasurement Gains and Losses.
- In the period of settlement:
  - The cumulative amount of remeasurement gains and losses is reversed in the Statement of Remeasurement Gains and Losses; and
  - An exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the Statement of Operations.

1 For those government organizations that applied the CPA Canada Handbook - Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook, this Section applies to fiscal years beginning on or after April 1, 2012. Governments and government organizations would also adopt Section PS 3450, Financial Instruments, at the same time. Earlier adoption is permitted.
Section PS 2700 - Segment Disclosures

OBJECTIVES OF DISCLOSING SEGMENT INFORMATION

- Assist users of the financial statements in:
  - Identifying the resources allocated to support the government’s major activities;
  - Making more informed judgments about the government reporting entity and its major activities;
  - Better understanding the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
  - Better understanding the performance of the segments and the government reporting entity; and
  - Enhance the transparency of financial reporting.

- Other government organizations that apply the CPA Canada Public Sector Accounting Handbook are encouraged to provide the disclosures in this Section when their operations are diverse enough to warrant such disclosures.

IDENTIFYING SEGMENTS

- A segment is a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of this Section as described above.

- Professional judgment is required to determine the activities that should be grouped as segments.

- Major classifications of activities used in creating, presenting or managing budget information may be an appropriate starting point for identifying segments.

- The definition of a segment and the factors described in paragraph PS 2700.09 should be considered by preparers of financial statements in identifying segments.

- Different bases of segmentation may be appropriate. The government should choose the basis of segmentation that best addresses the factors set out above.

- Examples of how financial information may be aggregated and reported are as follows:
  - By major functional classifications of activities undertaken by the government (i.e. health, education, defense, etc.).
  - By service line segments that are distinguished by outputs or achieving particular operating objectives (i.e. police services, parks and recreation, etc.).
  - By segments that reflect the different accountability and control relationships between the government and various organizations within the reporting entity (i.e. ministries, crown corporations, etc.).

- If a government reports on the basis of more than one segment structure (i.e. by service segments and functional classifications) and the government’s objectives are strongly affected by both of the segment structures, reporting on both may provide useful information to users.

- Not every part of a government is a segment; some activities may be part of general government operations.

ATTRIBUTING ITEMS TO SEGMENTS

- For each reportable segment:
  - Some items are directly attributable; and
  - Others are allocated on a reasonable basis.

- When revenues and expenses support a wide range of service delivery activities across a number of segments or relate to general administration activities not identified as a separate segment they may not be directly attributable or allocable on a reasonable basis to individual segments. In such cases, these revenues and expenses would be reported as unallocated amounts in reconciling the segment disclosures to the government’s consolidated financial statements.

- When modified equity-accounted income from government business enterprises and government business partnerships can be directly attributed / reliably allocated to a segment this would be done. In the same way, segment revenue and segment expense include the segment’s share of revenue and expense of a government partnership accounted for by proportionate consolidation.

- Transactions and balances between controlled entities are eliminated in accordance with Section PS 2500, Basic Principles of Consolidation, when consolidated financial statements are prepared. However, for the purpose of segment disclosures, segment revenue and segment expense are determined prior to these eliminations, except when transactions and balances are within a single segment.
### SEGMENT ACCOUNTING POLICIES
- Segment information must be prepared in accordance with the accounting policies adopted by the government for preparing and presenting its consolidated financial statements.

### CHANGES IN SEGMENTS
- When there is a change in segments, prior period segment data presented for comparative purposes must be restated to reflect the newly reported segment(s), unless the necessary financial data is not reasonably determinable.

### DISCLOSURE
- The following information about each of a government’s segments identified in accordance with paragraph PS 2700.07 must be separately disclosed in the notes or schedules of a government’s financial statements:
  - The basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;
  - Segment expense by major object or category;
  - Segment revenue by source and type;
  - The aggregate of the income of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable; and
  - A reconciliation between the information disclosed for segments and the consolidated information in the financial statements.

- Disclosure must be made of changes in accounting policies related specifically to segment reporting that have a material effect on segment information.
  - Prior period segment information presented for comparative purposes must be restated unless the necessary financial data is not reasonably determinable.
  - Disclosure would include:
    - A description of the nature of the change;
    - The reasons for the change;
    - The fact that comparative information has been restated or that the necessary financial data is not reasonably determinable; and
    - If reasonably determinable, the financial effect of the change.
**Section PS 3041 - Portfolio Investments**

**PORTFOLIO INVESTMENTS**
- Investments in organizations that do not form part of the government reporting entity. They are normally equity instruments or debt instruments issued by the investee. They do not include investments in government business enterprises which are defined in Section PS 1300, Government Reporting Entity, or loans receivable which are defined in Section PS 3050, Loans Receivable.

**ACCOUNTING**
- Portfolio investments that do not contain concessionary terms are recognized and measured in accordance with Section PS 3450, Financial Instruments.

**PORTFOLIO INVESTMENTS HELD BY SINKING FUNDS**
- Are accounted for in accordance with paragraphs PS 3041.03-.26 and follow the presentation and disclosure requirements of paragraphs PS 3041.27-.33. A government may also disclose information about its designation assets as outlined in Section PS 3100, Restricted Assets and Revenues.
- Portfolio investments held in externally restricted sinking funds follow the presentation and disclosure requirements of Section PS 3230, Long-term Debt.

**LOSS IN VALUE OF A PORTFOLIO INVESTMENT**
- A portfolio investment should be written down to recognize a loss in value that is other than a temporary decline. The amount of the write-down must be reported in the Statement of Operations.
- If the loss in value relates to an item in the fair value category, the reversal of any net remeasurements must be reported in the Statement of Remeasurement Gains and Losses.
- A write-down cannot be reversed.
- Refer to paragraphs PS 3041.11-.12 for potential indicators of impairment.

**GAINS & LOSSES ON SALES OF PORTFOLIO INVESTMENTS**
- When calculating a gain or loss on the sale of a portfolio investment, the cost of the investment sold is calculated on the basis of the average carrying value of the portfolio investment as measured in relation to cost or amortized cost.
- The gain or loss is recorded in the Statement of Operations in the period the sale occurs.

**PORTFOLIO INVESTMENTS WITH CONCESSIONARY TERMS**
- Portfolio investments that contain concessionary terms are:
  - Initially measured in accordance with paragraphs PS 3041.17-.26; and
  - Categorized and subsequently measured in accordance with Section PS 3450.
- When the terms associated with a government’s portfolio investment are so concessionary that in substance all or part of the investment is in the nature of a grant, at the time the investment is made, the grant portion of the transaction must be recognized as an expense.
- Refer to paragraph PS 3041.19 for additional guidance on how to account for this type of transaction.
- When present value techniques are used to recognize a portion of a portfolio investment as a grant, the value of the investment recorded at the investment date must be its cost less the amount calculated as the investment discount. The amount of the investment discount must be amortized to revenue by applying the effective interest method over the term to redemption or maturity of the investment.
- The amortization of the investment discount is recorded as an increase in the carrying value of the investment and investment income.
- Dividends or interest earned as outlined in the terms of the investment should no longer be accrued when their collectability is not reasonably assured.
- When this occurs or the return of the government’s capital is no longer reasonably assured, amortization of the investment discount would also cease.
- In this situation, a government must look at whether its portfolio investment is impaired. If impairment has occurred it should be accounted for in accordance with paragraphs PS 3041.07-.14.
- In addition, any dividends or interest previously accrued but not yet received that are considered doubtful must be provided for by a valuation allowance or written off.
- In the situation where a government has recorded an investment as a grant and then subsequently receives all or part of its capital back, the government would recognize the return of its capital as revenue at the time it is received.

**PRESENTATION**
- The Statement of Operations must separately report income from portfolio investments.
- The applicable standards in Section PS 3450 related to presentation must also be considered.

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1. Government organizations - must adopt Sections PS 2601, PS 3450 and PS 1201 for fiscal periods beginning on or after April 1, 2012.
2. Governments - must adopt Sections PS 2601, PS 3450 and PS 1201 for fiscal periods beginning on or after April 1, 2019. Earlier adoption is permitted.
### Section PS 3050 - Loans Receivable

#### LOAN RECEIVABLE

- A loan receivable is a financial asset (as defined in paragraph .40 of Section PS 1000, Financial Statement Concepts) of a government (the lender) represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, usually with interest.

#### LOANS TO BE REPAYED THROUGH FUTURE APPROPRIATIONS

- When a government makes a loan to a borrower and the government expects to recover the amount of the loan from future appropriations that the government gives to the borrower, the loan does not meet the definition of a financial asset since the government does not receive any resources from the loan transaction that it can use to discharge its existing liabilities or finance its future operations.
- As a result, in the period when a direct relationship can be established between the government’s funding to the borrower and the repayment of the loan, the amount of the loan that is expected to be recovered from future operations must be accounted for as an expense in the Statement of Operations.
- Refer to paragraphs PS 3050.13-.15 for guidance on determining whether a direct relationship exists.
- When a repayment is received on a loan or portion of a loan that was treated as a grant (i.e. was originally expensed), the repayment should be offset against the related expense.

#### FORGIVABLE LOANS

- The terms of a forgivable loan agreement include conditions under which the principal and any accrued interest would be forgiven.
- When a government advances an amount with forgivable conditions, unless it meets the definition of a loan receivable and there is sufficient evidence of a reasonable expectation of its recovery, it must be accounted for as a grant.
- Conversely, a conditional grant contains conditions that can trigger repayment and thus it may be recoverable. As a result, it must be accounted for in accordance with Section PS 3410, Government Transfers.

#### LOANS WITH SIGNIFICANT CONCESSIONARY TERMS

- When the terms associated with a loan are so concessionary that in substance all or part of the loan is in the nature of a grant, at the time the loan is made, the grant portion of the transaction must be recognized as an expense.
- Refer to paragraph PS 3050.22 for additional guidance on how to account for this type of transaction.
- When present value techniques are used to recognize a portion of a loan as a grant, the value of the loan recorded at the date of issue must be its face value discounted by the amount of the grant portion. The amount of the loan discount must be amortized to revenue in a rational and systematic manner over the term of the loan.
- The loan discount is amortized using the effective interest rate method\(^1\).
- The amortization of the discount is recorded as an increase in the loan balance and a credit to revenue.

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\(^1\) Per paragraph PS 3050.63 the requirement to apply the effective interest method applies in the period Section PS 3450, Financial Instruments, is adopted.
RECOGNITION

- A government recognizes a loan receivable in its financial statements when:
  - The government assumes the risks associated with, and acquires the right to receive, repayment of principal and any related payments of interest; and
  - The loan amount can be reliably measured.
- This would normally occur at the time the government disburses the funds, exchanges other assets or assumes liabilities.
- A government removes a loan receivable from its financial statements when:
  - It has been repaid;
  - The government has transferred the risks and rewards associated with the loan;
  - The right to repayment has expired or been waived; or
  - The loan is written off.

VALUATION

- Initially, a government records a loan receivable in its financial statements at cost.
  - Refer to paragraph PS 3050.31 for additional guidance on cost.
- Subsequently, the government uses a valuation allowance to reflect the loan receivable at the lower of its cost and net realizable value.
  - Refer to paragraphs PS 3050.32-34 for additional guidance on when valuation allowances should be used and how to determine the amount of the valuation allowance.
  - The Statement of Financial Position reports the loan receivable net of its related valuation allowance.
  - When there is a change in a valuation allowance it is recorded as an expense in the Statement of Operations.

WRITE-OFFS

- When there is no realistic prospect of recovery and the amount of the loss is known with sufficient precision, a loan receivable must be reduced by the amount of the loss.
- A write-off cannot be reversed.

RECOGNITION OF INTEREST REVENUE

- Interest revenue on a loan receivable is recognized when earned.
- When the collectability of either the loan principal or interest is no longer reasonably assured, interest revenue should stop being accrued.
- When this situation occurs for concessionary loans, amortization of the loan discount should also stop.
- In addition, a valuation allowance should be set up for any previously accrued but uncollected interest for which collection is doubtful or else the amount should be written off.
- Any interest earned on a loan that is recoverable only through future appropriations must be offset against the related expense.

RESTRUCTURING

- When a loan is restructured, any costs of concessions related to principal or interest previously accrued must be recognized at the time of restructuring as an expense in the Statement of Operations.
- In addition, interest on the restructuring of a loan receivable cannot be capitalized unless its recovery over the term of the loan is reasonably assured.
Section PS 3060 - Government Partnerships

GOVERNMENT PARTNERSHIP

- A contractual arrangement between a government and a party / parties outside of the government reporting entity\(^1\) that has all of the following characteristics:
  - The partners cooperate toward achieving significant clearly defined common goals;
  - The partners make a financial investment in the government partnership;
  - The partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and
  - The partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

- The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership.

- Refer to paragraphs PS 3060.11-.22 for more guidance on the elements of a government partnership.

- There are three ways a government partnership may be structured:
  - Operations under shared control (refer to paragraphs PS 3060.23-.25 for more guidance);
  - Assets under shared control (refer to paragraph PS 3060.26 for more guidance); or
  - Organizations under shared control (refer to paragraphs PS 3060.27-.28 for more guidance).

GOVERNMENT BUSINESS PARTNERSHIP

- A government partnership that has all of the following characteristics:
  - It is a separate legal entity with the power to contract in its own name and that can sue and be sued;
  - It has been delegated the financial and operational authority to carry on a business;
  - It sells goods and services to individuals and organizations other than the partners as its principal activity; and
  - It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources other than the partners.

ACCOUNTING FOR THE GOVERNMENT’S INTEREST

GOVERNMENT PARTNERSHIP OTHER THAN A GOVERNMENT BUSINESS PARTNERSHIP

- A government’s financial statements must recognize the government’s interest in government partnerships, excluding government business partnerships, using the proportionate consolidation method.
- Under the proportionate consolidation method, a government’s pro rata share of each of the assets, liabilities, revenues and expenses that are subject to shared control is combined on a line-by-line basis with similar items in the government’s financial statements. Refer to paragraph .06 in Section PS 2510, Additional Areas of Consolidation, for additional guidance on applying the proportionate consolidation method.

GOVERNMENT BUSINESS PARTNERSHIP

- Must be accounted for by the modified equity method\(^2\) applied using the government’s share of the government business partnership.

CHANGE IN CIRCUMSTANCES

- A change in circumstances may affect the valuation of the government’s interest in the government partnership and could require a write-down.
- A change in circumstances could also affect whether the arrangement would continue to be treated as a government partnership.
  - If the sharing of control, risks and benefits changes to such an extent that the arrangement no longer meets the definition of a government partnership the government’s interest would be accounted for in accordance with the guidance in Section PS 1300, Government Reporting Entity, or other relevant Public Sector Accounting Standards or Guidelines\(^3\).
  - If the circumstances change so that the arrangement no longer meets the definition of a government business partnership in paragraph PS 3060.07, a change in status of the government business partnership would be required.
- A change in accounting treatment that is brought about by events or transactions which reflect a difference in substance from those previously occurring would not be considered a change in accounting policy or classification as set out in Section PS 2120, Accounting Changes, and thus the change would not be applied retroactively. However, the change in accounting treatment, the underlying reasons for the change and the financial effects of the change must be disclosed in the government’s financial statements.

\(^1\) In an arrangement where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

\(^2\) Refer to our publication PSAB AT A GLANCE: Section PS 3070 - Investments in Government Business Enterprises for more information on the modified equity method.

\(^3\) When the arrangement no longer meets the definition of a government partnership, Section PS 2500, Basic Principles of Consolidation, Section PS 2510, Additional Areas of Consolidation, Section PS 3041, Portfolio Investments, and Section PS 3450, Financial Instruments, may also provide relevant guidance.
ACCOUNTING FOR INVESTMENTS OF ASSETS

- When a government invests assets in a government partnership and receives an interest in the government partnership in exchange, any loss that occurs must be recognized at the time of the initial investment in the Statement of Operations.
- When a government invests assets in a government partnership and receives an interest in the government partnership in exchange, any gain that occurs must be reported in the government’s financial statements as a deferred gain at the time of the initial investment only to the extent of the interest of the other non-related partners.
- When a government partnership, other than a government business partnership, is dissolved, any deferred gain related to the assets invested by the government must be recognized as revenue.
- For a government business partnership:
  - Any deferred gain related to the assets invested by the government must be amortized to net operating results in a rational and systematic manner over the life of the invested assets.
  - If the invested assets are non-depreciable, the deferred gain must be amortized to net operating results on a basis appropriate to the expected revenue or service to be obtained from their use by the government business partnership.
  - When the invested assets are disposed of to an independent third party by the government business partnership, any unamortized portion of the deferred gain must be recognized as revenue at that time.
- Reporting tangible capital assets
  - When tangible capital assets are invested in a government partnership, other than a government business partnership, the government must report the assets as follows:
    - The government must treat the other non-related partners’ share of assets invested by the government as disposals (refer to paragraph PS 3060.53 for more guidance); and
    - The government’s share of assets invested by the other non-related partners must be treated as purchases by the government in accordance with the relevant standards in Sections PS 1201, Financial Statement Presentation, and PS 3150, Tangible Capital Assets (refer to paragraph PS 3060.54 for more guidance).

PRESENTATION

- Deferred gains arising from the government’s investment of assets in a government partnership must be reported with liabilities in the government’s Statement of Financial Position.
Section PS 3070 - Investments in Government Business Enterprises

**GOVERNMENT BUSINESS ENTERPRISE**

- A government organization that has all of the following characteristics:
  - It is a separate legal entity with the power to contract in its own name and that can sue and be sued;
  - It has been delegated the financial and operational authority to carry on a business;
  - It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
  - It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

- Refer to Section PS 1300, Government Reporting Entity, paragraphs .29-.31 for more guidance on these criteria.

**METHOD OF ACCOUNTING**

- Government business enterprises must be accounted for by the modified equity method as stated in paragraph .35 of Section PS 1300, Government Reporting Entity.
- The modified equity method of accounting is the same as the equity method of accounting, except that the government business enterprise’s accounting principles are not adjusted to conform to the accounting principles of the government.
- The government adjusts its investment in the government business enterprise on its consolidated Statement of Financial Position and presents the net income of the government business enterprise as a separate item on its consolidated Statement of Operations.
- The modified equity method is applied from the date:
  - The government acquires or creates a government business enterprise;
  - A governmental unit changes in status to become a government business enterprise as described in Section PS 2510, Additional Areas of Consolidation; and
  - A government applies Section PS 1300, Government Reporting Entity, for the first time.

**INVESTMENT IN A GOVERNMENT BUSINESS ENTERPRISE**

- Is reflected in a government’s financial statements under the modified equity method as the cost of the government’s investment in the government business enterprise calculated in accordance with paragraphs PS 3070.10-.16, and subsequent to the date the modified equity method first became appropriate, also includes adjustments for the following:
  - The government’s proportionate share of the earnings of the government business enterprise after discontinued operations and extraordinary items of the government business enterprise;
  - The government’s proportionate share of dividends paid or payable by the government business enterprise;
  - The government’s proportionate share of prior period adjustments, such as a change in an accounting policy or a correction of an error relating to prior period financial statements, as well as, capital transactions, accumulated other comprehensive income and cumulative foreign currency translation adjustments of the government business enterprise;
  - The accumulated amortization of any purchase premium and / or fair value increments on depreciable assets related to an acquired government business enterprise;
  - The elimination of any unrealized inter-organizational gains and losses on assets remaining within the government reporting entity at the financial statement date;
  - Any gains or losses arising on inter-organizational bond holdings; and
  - Any impairments in the value of the purchase price discrepancy component of a government's investment in an acquired government business enterprise recognized by the government since acquisition.

**INCOME FROM AN INVESTMENT IN A GOVERNMENT BUSINESS ENTERPRISE**

- Includes the government’s proportionate share of the government business enterprise’s earnings, calculated based on the government business enterprise’s earnings after discontinued operations and extraordinary items, as well as the following adjustments:
  - The amortization of any purchase premium, in relation to an acquired government business enterprise, over the lesser of its life and 20 years (refer to paragraphs PS 3070.17-.18);
  - The amortization of any fair value increments on depreciable assets, in relation to an acquired government business enterprise, over the useful lives of the related assets (refer to paragraph PS 3070.19);

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1 Paragraph .13 of Section PS 2120, Accounting Changes, states that “when a change in an accounting policy is made to conform to new Public Sector Accounting Standards or to adopt Public Sector Accounting Standards for the first time, the new Standards may be applied retroactively or prospectively.”
The elimination of any unrealized inter-organizational gains and losses on assets remaining within the government reporting entity at the financial statement date (refer to paragraphs PS 3070.29-34);

Any gains or losses arising on inter-organizational bond holdings (refer to paragraphs PS 3070.35-.38); and

Any write-downs associated with any impairment in the value of the purchase price discrepancy component of a government’s investment in an acquired government business enterprise recognized by the government in the period (refer to paragraphs PS 3070.20-28).

The government’s proportionate share of the government business enterprise’s other comprehensive income is reported in the Statement of Remeasurement Gains and Losses.

The government recognizes income from an investment in a government business enterprise when it is earned by the government business enterprise and not when dividends are declared by the government business enterprise.

Under the modified equity method, these dividends represent the conversion, first into dividends receivable and then into cash, of the increase in the investment already recognized by the government.

When all or part of a government’s investment in a government business enterprise is sold, the cost of the portion of the total investment sold must be calculated on the basis of the carrying value of the investment at the date of sale for the purposes of calculating a gain or loss on the sale of the investment.

Income from an investment in a government business enterprise would be recognized up to the date of the sale.

The consolidated operating results in the period of sale must include the gain or loss resulting from the sale of all or part of a government’s investment in a government business enterprise.

When a government disposes of all or a large portion of an acquired government business enterprise, any related unamortized purchase premium and/or fair value increments must be taken into account in determining the gain or loss on disposal.

Refer to paragraph PS 3070.44 for guidance on when a change in a government’s interest in a government business enterprise results in the loss of control and the government’s remaining investment meets the definition of a portfolio investment.

When, for purposes of preparing government consolidated financial statements, it is not possible to use financial statements of a government business enterprise for a period which substantially coincides with that of the government’s consolidated financial statements, disclosure of this fact and the period covered by the financial statements of the government business enterprise must be included in the government’s financial statements.

When the fiscal periods of the government reporting entity and a government business enterprise are not the same, events relating to or transactions of the government business enterprise which have occurred during the intervening period and that significantly affect the consolidated financial position or results of operations of the government reporting entity must be recorded in the government’s consolidated financial statements.

When a government business enterprise’s nature changes so that it no longer meets the definition of a government business enterprise, the organization becomes a governmental unit and is no longer accounted for by the modified equity method, but instead is consolidated in the government’s financial statements in accordance with the requirements of Section PS 2500, Basic Principles of Consolidation, and Section PS 2510, Additional Areas of Consolidation.

When the change in status of a government business enterprise to a governmental unit is a result of an observable event the government applies both modified equity and consolidation accounting to the organization in the period the event occurs, as appropriate.

When the change in status of a government business enterprise to a governmental unit is not a result of a specific observable event, but instead occurs over time, a government accounts for the organization as a governmental unit for the reporting period during which the change occurs.

In the period a government organization no longer meets the definition of a government business enterprise, the effect of conforming its accounting policies to those of the government reporting entity for the purposes of consolidation must be included in the determination of the government’s consolidated operating results.

When the circumstances affecting a government organization change such that it no longer meets the definition of a government business enterprise, the change in accounting treatment would not be applied retroactively. However, the government’s financial statements must disclose the resulting change in accounting treatment, the underlying reasons for the change, and the financial effect of the change.
WHEN A GOVERNMENT UNIT BECOMES A GOVERNMENT BUSINESS ENTERPRISE

- When a government unit’s nature changes so that it meets the definition of a government business enterprises it is accounted for by the modified equity method.
- Refer to paragraphs .42-.51 of Section PS 2510, Additional Areas of Consolidation, for guidance on accounting for this change2.

PRESENTATION

- A government’s investment in government business enterprises must be reported separately on the Consolidated Statement of Financial Position.
- Income from investments in government business enterprises must be reported separately on the Consolidated Statement of Operations.
- Other comprehensive income from investments in government business enterprises must be reported separately on the Consolidated Statement of Remeasurement Gains and Losses.

2 See also our publication PSAB AT A GLANCE: Consolidation.
**Section PS 3100 - Restricted Assets and Revenues**

### SCOPE

<table>
<thead>
<tr>
<th>Applies to:</th>
<th>Does not apply to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accounting for restricted assets and revenues in government financial statements.</td>
<td>• Trusts under administration, which are excluded from the government reporting entity (see PS 1300.40).</td>
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<tr>
<td></td>
<td>• Government transfers, which are addressed in PS 3410².</td>
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</tbody>
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### EXTERNAL RESTRICTIONS

- Stipulations imposed by an agreement with an external party, or through legislation of another government, that specify the purpose or purposes for which resources are to be used.
- Externally restricted resources are the least accessible of a government's resources, because unless the government obtains approval / permission from the external party or there is a change in the relevant legislation, these resources cannot be used for anything other than the purpose stipulated.

### REVENUE RECOGNITION

- Externally restricted inflows must be recognized as revenue in a government’s financial statements *in the period* the resources are used for the purposes specified.
- If externally restricted inflows are received in the *same* period that the expenditures related to the use of the restricted resources are incurred, the inflows are recognized in that period since the restrictions have been complied with by the financial statement date.
- Externally restricted inflows that are received *before* the related criteria are met must be reported as a liability until the resources are used for the purpose / purposes specified.

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¹ For guidance on internally restricted entities and designated assets refer to paragraphs PS 3100.20-.26 and PS 3100.27-.31 respectively.

² Refer to paragraph .37 in PS 3410, *Government Transfers*, for the transitional provisions related to this scope restriction.
# Section PS 3150 - Tangible Capital Assets

## Scope

Does not apply to:
- Intangible assets, natural resources and Crown lands that have not been purchased by the government.
- Government capital grants and government transfers of tangible capital assets as these are accounted for in accordance with Section PS 3410, *Government Transfers*.

## Tangible Capital Assets

- Non-financial assets\(^1\) having physical substance that:
  - Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
  - Have useful economic lives extending beyond an accounting period;
  - Are to be used on a continuing basis; and
  - Are not for sale in the ordinary course of operations.

## Accounting

- Tangible capital assets must be accounted for and reported as assets on the Statement of Financial Position.
- Works of art and historical treasures are not recognized as tangible capital assets in the financial statements of a government since a reasonable estimate of their future benefits cannot be made. However, their existence must be disclosed.

## Measurement

### Cost

- Tangible capital assets must be recorded at cost.

  - *Cost includes:*
    - The gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset; and
    - All costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use.

  - The cost of each tangible capital asset acquired as part of a single purchase is determined by allocating the total price paid to each item on the basis of its relative fair value at the time of acquisition.

  - Whether the cost of each component of a tangible capital asset made up of several components, such as a complex network system, would be accounted for separately by a government is determined by the cost versus the benefit.

  - When at the time of acquisition, a portion of an acquired tangible capital asset is not intended for use, its cost plus any costs of disposal less any estimated proceeds, are added to the portion of the acquired tangible capital asset that is intended for use.

  - Cost of a tangible capital assets that is acquired, constructed or developed over time includes:
    - Direct construction or development costs;
    - Overhead costs that are directly attributable to the construction or development activity; and
    - Carrying costs directly attributable to the acquisition, construction or development activity.

  - Capitalization of carrying costs ends when no construction or development is taking place or a tangible capital asset is substantially complete and is ready for productive use.

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\(^1\) Under Section PS 3150, the definition of tangible capital assets includes computer software.
**COST (CONTINUED)**

- Capital grants received are not netted against the cost of the related tangible capital asset.
- Contributed tangible capital assets
  - The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is its fair value at the date of contribution.
  - In unusual circumstances where the fair value cannot be reasonably determined, the tangible capital asset is recorded at nominal value.
- Leased tangible capital assets
  - Cost is determined in accordance with the guidance provided in PSG-2, *Leased Tangible Capital Assets*.
- Betterment
  - The cost incurred to enhance the service potential of a tangible capital asset.
  - A betterment is capitalized not expensed like repair and maintenance costs.

**AMORTIZATION**

- The cost of a tangible capital asset with a limited life less any residual value is amortized over the asset's useful life.
- Amortization must be recognized in a rational and systematic manner appropriate to the nature of the tangible capital asset and its use by the government.
- Amortization is recognized as an expense in the Statement of Operations.
- A government must review the amortization method and the estimate of the useful life for the remaining unamortized portion of a tangible capital asset on a regular basis and revise it when it can clearly demonstrate the appropriateness of a change.

**WRITE-DOWNS**

- The cost of a tangible capital asset must be reduced to reflect a decline in the asset's value when conditions indicate:
  - A tangible capital asset no longer contributes to a government's ability to provide goods and services; or
  - That the value of the tangible capital asset's future economic benefits is less than its net book value.
- When the tangible capital asset no longer contributes to a government's ability to provide goods and services the asset would be written down to its residual value, if any.
- When the value of the tangible capital asset's future economic benefits is less than its net book value the government would estimate the value of the expected remaining future economic benefits. The tangible capital asset would then be written down to this revised estimate of the value of the asset's remaining service potential to the government.
- A write-down is recognized as an expense in the Statement of Operations.
- A write-down cannot be reversed.

**DISPOSALS**

- The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset is accounted for as a revenue or expense in the Statement of Operations.
## Section PS 3200 - Liabilities

**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.
Section PS 3210 - Assets

**ASSETS**

- **Assets** are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.
- There are three essential characteristics of assets:
  - They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;
  - The public sector entity can control the economic resource and access the future economic benefits; and
  - The transaction or event giving rise to the public sector entity’s control has already occurred.

**ECONOMIC RESOURCES**

- Economic resources embody value because they enable an entity to meet its objectives. To embody value as an economic resource there must be some restriction on an economic resource’s availability.
- Economic resources can arise from, but are not limited to:
  - Contracts or agreements;
  - Another government’s legislation;
  - A government’s own legislation;
  - Voluntary contributions; or
  - Construction and development.
- Economic resources can be financial or non-financial in nature.

**DISCLOSURE**

- An economic resource may meet the definition of an asset, but not be capable of being recognized in the financial statements because:
  - An appropriate basis of measurement and a reasonable estimate of the amount involved cannot be made; or
  - Other Handbook Sections prohibit recognition (i.e. intangibles, Crown land, etc).
- Information about the major categories of unrecognized assets must be disclosed in the notes.
- If an asset is not recognized because a reasonable estimate of the amount cannot be made the reason for this must be disclosed.

1 Earlier adoption of this Section is permitted.
## Section PS 3230 - Long-term Debt

### FINANCIAL STATEMENT PRESENTATION

- A government’s long-term debt at the end of the accounting period must be presented on its Statement of Financial Position.
- A government must provide the following information when it has externally restricted sinking funds set aside to retire its long-term debt:
  - The gross amount of the long-term debt to be retired by the sinking funds; and
  - The amount of the sinking fund assets available to retire the debt.

### DEBT ISSUED ON BEHALF OF GOVERNMENT BUSINESS ENTERPRISES

- Other than in the circumstances outlined in paragraph PS 3230.10, when a government issues debt and some or all of the proceeds of the debt are subsequently loaned to a government business enterprise, the government must:
  - Recognize in the consolidated Statement of Financial Position, a liability for the entire amount borrowed from sources external to the reporting entity and a financial asset for the related receivable from the government business enterprise; and
  - Recognize in the consolidated Statement of Operations, an expense for the interest on the entire amount of the debt borrowed and revenue for the related interest earned from the government business enterprise.
- When a government issues debt and there is sufficient evidence the debt has been issued specifically on behalf of a government business enterprise:
  - The government’s consolidated Statement of Financial Position must present on a net basis, the debt issued on behalf of the government business enterprise and the related receivable from the government business enterprise; and
  - The government’s consolidated Statement of Operations must present on a net basis, the interest expense on the debt issued on behalf of the government business enterprise and the related interest revenue from the government business enterprise.
  - Refer to paragraph PS 3230.12 for guidance on when there is sufficient evidence that a government has specifically issued debt on behalf of a government business enterprise.
# Retirement Benefits, Post-employment Benefits, Compensated Absences & Termination Benefits

**Defined Benefit Pension Plans**

### Scope

- **Applies to:**
  - Section PS 3250 applies to obligations for employee retirement benefits in government financial statements.
  - Section PS 3255 applies to post-employment benefits, compensated absences and termination benefits earned by employees that the government anticipates providing to them at a time when the employees are no longer providing permanent or temporary active service.

- **Does not apply to:**
  - Short-term employee benefits as these would be accounted for under the general provisions of accruing liabilities. Refer to paragraph PS 3255.05 for examples of such benefits.

### Defined Benefit & Defined Contribution Plans

- When a government provides benefits under a defined benefit plan it bears the following risks:
  - Actuarial risk - the risk regarding the amount of benefits each employee will actually receive; and
  - Investment risk - the risk investment returns on assets set aside to pay for the cost of the employee benefits will fall short and the government will be responsible for funding the difference.

- Conversely, when a government provides benefits under a defined contribution plan it does not bear the actuarial or investment risks, instead it is the employees who bear these risks.

- The economic substance of the plan determines its classification as either a defined benefit plan or a defined contribution plan.

### Defined Benefit Pension Plans

- Specify either the benefits to be received by employees after retirement or the method for determining those benefits.

- **Liability and expense**
  - At the financial statement date, the retirement benefit liability must be reported on the Statement of Financial Position and the expenses for retirement benefits must be reported on the Statement of Operations on the basis of the value of the benefits attributed to employee services to that date.

  - **The retirement benefit liability consists of:**
    - The accrued benefit obligation, including effects of plan amendments, settlements and curtailments;
    - Unamortized actuarial gains and losses; LESS
    - Any plan assets.

  - **The cost of the retirement benefits promised during the period consists of:**
    - The retirement benefits expense; and
    - The retirement benefits interest expense.

    - **The retirement benefits expense consists of:**
      - The current period benefit cost;
      - The cost of plan amendments incurred in the period;
      - Net actuarial gains or losses recognized in determining the cost of the plan amendments according to paragraphs PS 3250.068 and .071
      - Gains and losses arising from plan settlements and curtailments incurred in the period;
      - Amortization of actuarial gains and losses;
      - The amount recognized as a result of a temporary deviation from the plan, determined according to paragraph PS 3250.073;
      - The change in the valuation allowance against the carrying amount of an accrued benefit asset, determined according to paragraph PS 3250.050; LESS
      - Employee contributions that were made during the period.

    - **The retirement benefits interest expense is the net of:**
      - The interest cost on the accrued benefit obligation calculated by applying the discount rate determined at the beginning of the period according to paragraph PS 3250.044 to the average value of the accrued benefit obligation for the period; and
      - The expected return on plan assets for a defined benefit plan, determined by applying the assumed rate of return on plan assets to the average market-related value of assets for that period.

- **Actuarial cost methods**
  - An accrued benefit method must be used to attribute the cost of retirement benefits to the periods of employee service.
  - The projected benefit method prorated on services is the accrued benefit method that should be used.

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1. Includes Section PS 3250, *Retirement Benefits*, and Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. 
DEFINED BENEFIT PENSION PLANS (CONTINUED)

- Asset valuation
  - Plan assets for a defined benefit plan must be valued at market-related values.

- Measurement date
  - Normally the plan assets and accrued benefit obligation are measured at the financial statement date.
  - However, an earlier date may be used as long as this is done consistently each year, and between the valuation date and the financial statement date no significant change relevant to the valuation occurs.

- Actuarial assumptions
  - Must be based on the government’s best estimate of short-term forecasts and long-term experience.
  - Must be internally consistent.

- Actuarial gains and losses
  - Actuarial gains and losses, except for those described in paragraphs PS 3250.068, .071, and .078, must be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group.

- Prior period service costs arising from plan amendments
  - Are accounted for in the period of the plan amendment.

- Plan settlements and curtailments
  - Refer to PS 3250.074-.076 for guidance on plan settlements and curtailments.

DEFINED CONTRIBUTION PLANS

- A plan where the employer’s contributions are fixed, normally as a percentage of compensation, and allocated to specific individuals.
- The retirement benefit for each employee is the amount that can be provided at retirement based on the accumulated contributions made on that individual’s behalf and investment earnings on those contributions.

- Liability and expense
  - The liability for retirement benefits is the difference between:
    - The amount of contributions a government was required to make; and
    - The amount that was contributed by the financial statement date including accumulated interest on any outstanding amounts which are payable to the fund at the financial statement date.
  - The retirement benefit liability must be accounted for in the Statement of Financial Position
  - The expense for retirement benefits is:
    - The amount of contributions required to be provided for services employees rendered in the period.
    - Any interest accrued during the period on outstanding amounts payable to the fund must be accounted for as a retirement benefit interest expense.
    - Both the retirement benefit expense and the retirement benefit interest expense must be accounted for in the Statement of Operations.
    - When a past service plan amendment is made by a government, the cost of the related current and expected future years’ contributions must be accounted for in the period the plan amendment occurs.

MULTIEMPLOYER & MULTIPLE-EMPLOYER BENEFIT PLANS

MULTIEMPLOYER PLANS

- A defined benefit plan that two or more governments / government organizations contribute to, normally pursuant to legislation or one or more collective bargaining agreements.
- A government that sponsors a defined benefit multiemployer retirement plan, accounts for its obligation in the plan by following the standards for defined benefit plans.
- An entity that participates in a multiemployer retirement benefit plan, but is not the sponsoring government, follows the standards for defined contribution plans.

MULTIPLE-EMPLOYER PLANS

- A defined benefit plan maintained by more than one entity that is not a multiemployer plan.
- Each entity providing benefits to employees through a defined benefit multiple-employer retirement plan follows the standards for defined benefit plans.
POST-EMPLOYMENT BENEFITS & COMPENSATED ABSENCES

• Post-employment benefits
  • Benefits expected to be provided subsequent to employment but prior to retirement to employees and their beneficiaries.
  • They include:
    • Long-term and short-term disability income benefits (including workers’ compensation), severance benefits, salary continuation, supplemental unemployment benefits, job training and counseling, and continuation of benefits such as health care benefits and life insurance.

• Compensated absences
  • Benefits that employees will be paid for when they are absent from work.
  • They include:
    • Parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service.

The characteristics of benefit plans
• The accounting recognition of the liability and expense will differ based on whether or not the post-employment benefits or compensated absences vest or accumulate. Therefore, it is important to correctly determine the substance of a plan.
  • Refer to the chart provided in Appendix A to Section PS 3255 for guidance in determining the correct accounting standards to apply.

• Benefits that vest or accumulate
  • A liability and an expense for post-employment benefits and compensated absences that vest or accumulate must be recognized by a government during the period when the employees provide the services to the government in return for the benefits, as long as payment of the benefits is probable and a reasonable estimate of the amounts can be made.
  • The guidance in Section PS 3250, Retirement Benefits, must be followed in accounting for these types of benefits.
  • Benefits that accumulate but do not vest (i.e. sick pay benefits) are normally only paid upon illness or an injury-related absence.
  • These benefits are obligations and thus need to be recognized in a government’s financial statements.
  • The expectation of future utilization of the benefits would be considered in determining the measurement of the obligation.

• Event-driven benefits
  • These are post-employment benefits or compensated absences that do not vest or accumulate.
  • For these benefits, a government recognizes a liability and an expense when the event that creates the obligation for the government occurs.
  • A government must recognize an actuarial gain or loss for a separately measured plan that provides post-employment benefits or compensated absences that do not vest or accumulate:
    • Immediately, in the period in which it arises; or
    • Over a period linked to the type of benefit.
  • A government applies the basis for recognizing actuarial gains and losses consistently.

TERMINATION BENEFITS

• Include the following:
  • Contractual termination benefits - Benefits a government is required to provide to employees as part of the existing terms of a benefit arrangement when a specific event occurs that results in the downsizing and termination of a group of employees; and
  • Special termination benefits - Benefits that are not contractual termination benefits, which are offered to employees for a short period of time (not usually longer than twelve months) in exchange for employees’ voluntary or involuntary termination of employment.

• Must be recognized as a liability and expense by a government when it is demonstrably committed to either:
  • Terminate the employment of an employee or group of employees; or
  • Provide termination benefits as a result of an offer made to encourage voluntary termination.
  • Refer to paragraphs PS 3255.29–.31 for guidance on when a government is demonstrably committed.

• The obligations of benefit plans in which terminating employees participate may increase or decrease as terminations occur.
  • When the change in the liabilities is directly related to the termination of employees, this change is accounted for as part of the termination.
    • This does not impact the timing or recognition of actuarial gains and losses.
  • When the change in the liabilities is not directly related to the termination of employees, this change is recognized either in the determination of actuarial gains or losses or as a curtailment gain or loss.
Section PS 3260 - Liability for Contaminated Sites

Effective Date
Fiscal years beginning on or after April 1, 2014

SCOPE

Does not apply to:
- Costs for acquisition or betterment of tangible capital assets that are within the scope of Section PS 3150, Tangible Capital Assets, to the extent that such costs do not exceed the future economic benefits related to the asset or post-remediation fair value of the asset if sold for use or sale;
- Liabilities associated with the retirement of a long-lived tangible capital asset in productive use that result from its acquisition, construction or development and ongoing use (e.g. operating a nuclear facility);
- Liabilities associated with the disposal or sale of long-lived tangible capital assets (e.g. privatization of water utility); and
- Liabilities for closure and post-closure care of a solid waste landfill site when the site or a phase stops accepting waste as this is specifically dealt with under Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability.

RECOGNITION

A liability for contaminated sites must be recognized when, as at the financial reporting date:
- An environmental standard exists;
- Contamination exceeds the environmental standard;
- The government:
  - Is directly responsible; or
  - Accepts responsibility;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria above are satisfied.

ENVIRONMENTAL STANDARD

- Any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment.
- It is generally set out in the form of a statute, regulation, by-law, order, permit, contract or agreement.
- It is legally enforceable and binding and compliance is mandatory.
- Breaches may be enforced through prosecution, fines, jail and similar penalties, order or loss of permit.
- Compliance may be enforced through administrative proceedings.
- It may be quantitative or qualitative.
- It may be created by internal government policy or by guidelines developed by external organizations.
- A government evaluates the existence of an environmental standard based on existing or enacted legislation, contract or agreement that is in effect at the financial statement date. Future legislation changes are not taken into account.
- Voluntary compliance may create a liability. The individual circumstances and the criteria in Section PS 3200, Liabilities, would be taken into account and professional judgment would be required in determining if a liability existed in such a situation.

CONTAMINATION

- Contamination that exceeds an environmental standard at the financial reporting date is a necessary condition for recognizing a liability for remediation.
- Assembling and reviewing all available historical and current information about a site / group of sites is necessary in order to determine if contamination exists that exceeds an environmental standard (refer to paragraph PS 3260.15).

1 Earlier adoption of this Section is encouraged. If application of this Section results in a change in accounting policy, Section PS 2120, Accounting Changes, applies.
**CONTAMINATION (CONTINUED)**

- The need to determine whether a liability exists and would be recognized is not eliminated by uncertainty about the existence or non-existence of contamination.
- Instead, the probability that future site investigations will confirm that contamination exceeding an environmental standard existed at the financial statement date is what determines whether a liability exists.
- If the probability is likely and an amount can be reasonably estimated a liability would be recognized.

**DIRECT RESPONSIBILITY**

- In the following situations a government may be directly responsible for remediation:
  - When its own past activities, even though they may have been consistent with environmental requirements at the time, have caused contamination; and
  - When activities such as mining or exploration occurred on government-owned land or land the government has since acquired, and a responsible party cannot be identified or if identifiable lacks the means to remediate the damage.
- A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability.
  - Under this Section, a legal obligation can result from:
    - Agreements or contracts;
    - Legislation of another government; or
    - A government’s own legislation.

**ACCEPTING RESPONSIBILITY**

- Through its own actions or promises a government may voluntarily assume responsibility for remediation of a contaminated site.
- Most liabilities for remediation arise from legal obligations; however, they can also be the result of constructive or equitable obligations.
  - Refer to paragraph PS 3260.28 for examples of evidence that a government may have a present obligation for remediation separate from legal documents.
  - If a government announces its intentions between the financial statement date and completion of the financial statements this does not create a liability for remediation as the condition / situation did not exist at the financial statement date. However, this may create a subsequent event (refer to Section PS 2400, Subsequent Events2).

**FUTURE ECONOMIC BENEFITS**

- When contamination exists that exceeds an environmental standard the government may have a liability in spite of whether or not it chooses to perform remediation activities.
- The government may have a present obligation to remediate the contamination now or at some point in the future. The timing of the settlement does not relieve the government of its present obligation to recognize the liability; instead the timing would be taken into account in the measurement of the liability.
- However, if it is not expected that future economic benefits will be given up, it is possible the government would not record the liability.

**UNCERTAIN RESPONSIBILITY**

- There may be uncertainty as to whether the government may be responsible in a situation where:
  - An environmental standard exists and contamination exceeds the standard; and
  - The government has determined it is not responsible and it does not accept responsibility.
- In this case, the government may have a contingent liability, because contamination that exceeds an environmental standard is an existing condition or situation.
- A future confirming event may be required to determine the government’s responsibility. An assessment of the probability this future event will confirm the government’s responsibility and professional judgment would be required.
  - If the future event confirming the government’s responsibility is:
    - Likely - The government recognizes the liability if the amount can be reasonably estimated.
    - Unlikely - The government does not recognize the liability.
    - Not determinable - The government discloses the existence, nature and extent of the contingent liability.

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2 See also our publication PSAB AT A GLANCE: Section PS 2400 – Subsequent Events.
MEASUREMENT

- Costs directly attributable to remediation activities must be included in the estimate of a liability.
  - These costs would include post-remediation operation, maintenance and monitoring costs that are an integral part of the remediation strategy for a contaminated site.
  - The estimate would include costs of assets acquired as part of remediation activities to the extent those assets have no alternative use.

- A liability for remediation must be estimated based on information that is available at the financial statement date.
  - It must be based on existing environmental standards and technology expected to be used in the remediation activities.
  - Professional judgment, management’s best estimate at the time, and any previous experience the government has had in a similar situation would be used in estimating the liability.
  - If a reasonable estimate of the amount cannot be made, disclosure in the financial statements of the nature of the liability and its potential effects on the government’s financial statements when it becomes measureable may be required.
  - When the estimate is based on a site assessment and a new site assessment is not completed each year, an extrapolation of the previously completed site assessment may be used in estimating the liability. However, when changes have occurred and the effect of the change is significant a new estimate may need to be recognized.

- The measurement technique used by the government must result in the best estimate of the amount required to remediate the contaminated site.
  - The best estimate would be the amount the government would rationally pay to settle or otherwise extinguish the liability at the financial statement date.
  - When the cash flows expected to settle / extinguish the liability occur over extended future periods, a present value technique may be the most appropriate technique.

- At each financial reporting date, the carrying amount of a liability for remediation must be reviewed. Any revision to the amount previously recognized by the government must be accounted for in the period in which the revisions are made.
  - When the estimate of the amount of the liability changes, the change is accounted for in accordance with Section PS 2120, Accounting Changes.
  - Until a liability is settled or otherwise extinguished it continues to be recognized in the government’s financial statements.
  - When disbursements are made they are deducted from the liability.

- A liability for remediation of contaminated sites must be reduced by any expected net recoveries if the recognition criteria outlined in paragraphs .54–.56 of Section PS 1000, Financial Statement Concepts, are met.
Section PS 3270 - Solid Waste Landfill Closure & Post-closure Liability

LANDFILL OPERATIONS

- Solid waste landfill site:
  - A defined area of land or excavation that receives waste possibly including household waste, commercial solid waste, non-hazardous sludge and industrial solid waste.
  - A stringent environmental approval process for landfill sites is set out in government legislation and regulations.
  - A landfill footprint comprises the total expected capacity of a landfill site. It can be divided into individual phases and each phase may be made up of individual cells.
  - Prior to receiving environmental approval and accepting any waste a landfill operator must agree to certain obligations including, responsibly for closure and post-closure care of the approved site.

CLOSURE ACTIVITIES

- Include all activities related to closing the landfill site. These activities may include:
  - Final cover and vegetation; and
  - Completing facilities for:
    - Drainage control features;
    - Leachate monitoring;
    - Water quality monitoring; and
    - Monitoring and recovery of gas.

POST-CLOSURE ACTIVITIES

- Include all activities related to monitoring the site once it can no longer accept waste. These activities may include:
  - Acquisition of any additional land for buffer zones;
  - Treatment and monitoring of leachate;
  - Monitoring ground water and surface water;
  - Gas monitoring and recovery; and
  - Ongoing maintenance of various control systems, drainage systems, and final cover.

RECOGNITION AND MEASUREMENT

- A liability for closure and post-closure care must be recognized in a government’s financial statements as the landfill site’s capacity is used. Usage must be measured on a volumetric basis (e.g., cubic meters).
- When a site / phase first starts accepting waste the liability for closure and post-closure care begins. The liability is then recognized over the operations of the site / phase and is fully recognized when the site / phase stops accepting waste.
- The change in the liability and the expense for the site / phase equals:
  - Estimated total expenditure x (Cumulative capacity used / Total estimated capacity) - Expenditures previously recognized.
  - Estimated total expenditure:
    - Represents the sum of the discounted future cash flows associated with closure and post-closure care activities.
    - The appropriate discount rate may be the government’s average long-term borrowing rate, determined on a consistent basis.
    - In determining the estimated total expenditure for closure and post-closure care activities, consideration should be given to current technology, the length of the post-closure care period, and the environmental regulations at the time the estimate is made.
  - Capacity:
    - A rational and systematic method and the best information available should be used in estimating the capacity used.
    - In order for the liability and results to be comparable over time, the basis for estimating the total capacity and capacity used must be applied consistently.
    - An assessment of the need for a comprehensive review of capacity must be completed once every three years.
  - The reported liability:
    - May change based on changes in the estimated total expenditure, capacity used or total capacity.
    - Would be reduced when closure and post-closure care disbursements are made.
# Section PS 3300 - Contingent Liabilities

## Contingent Liabilities

- Contingent liabilities are distinct from liabilities since there is a degree of **uncertainty** as to whether a present obligation to sacrifice economic benefits exists at the financial statement date.
- Contingent liabilities have **two** basic characteristics:
  - There must be an existing condition or situation; and
  - There must be an expected future event that will resolve the uncertainty as to whether a present obligation to sacrifice economic benefits exists. This event cannot be wholly within the control of the reporting government.

## Existence Uncertainty

- The following range of probabilities express the uncertainty relating to the occurrence or non-occurrence of the future event(s) confirming that a liability exists at the financial statement date:
  - **Likely** - the probability of the occurrence / non-occurrence of the future event is high;
  - **Unlikely** - the probability of the occurrence / non-occurrence of the future event is slight; and
  - **Not determinable** - the probability of the occurrence / non-occurrence of the future event cannot be determined.

## Recognition

- A contingent liability must be recognized in the financial statements when:
  - It is **likely** that a future event will confirm a liability has been incurred at the date of the financial statements; and
  - A reasonable estimate of the amount can be made.
- A contingent liability must be derecognized when:
  - It is settled or otherwise extinguished; or
  - It is determined that the existence of a liability at the financial statement date is unlikely.
  - If it is determined that the future confirming event associated with the accrued contingent liability is unlikely to occur, the derecognition of the contingent liability would be accounted for in accordance with Section PS 2120, *Accounting Changes*, in the current period and not as a prior period adjustment.

## Measurement

- The carrying amount of a contingent liability must be continually assessed.
- A change in the estimate of the contingent liability would be accounted for in accordance with Section PS 2120.
- When a recognized contingent liability is mitigated by a counterclaim or another claim against a third party and the probability of recovery is likely, this amount would be taken into account when determining the amount of the contingent liability.

## Disclosure

- In any of the following situations, a contingent liability in existence at the date of the financial statements must be disclosed:
  - The occurrence of the future confirming event is likely:
    - But the amount of the liability cannot be reasonably estimated; or
    - An amount has been accrued, but the entity is exposed to a liability that is greater than the amount accrued in the financial statements; or
    - The occurrence of the future event is not determinable.
  - Refer to paragraph PS 3300.28 for guidance on what information must be disclosed.
Section PS 3310 - Loan Guarantees

**LOAN GUARANTEE**

- A loan guarantee is a promise to pay all or a part of the principal and / or interest on a debt obligation in the event of default by the borrower.
- Government loan guarantees must be accounted for and reported as contingent liabilities in the government’s financial statements.

**PROVIDING FOR LOSSES**

- When it is determined that a loss is likely, a provision for losses on loan guarantees must be established and must be accounted for as a liability in the Statement of Financial Position and as an expense in the Statement of Operations.
- Refer to the guidance in paragraph PS 3390.09 for factors that may indicate a loss is likely.

**ESTIMATING THE PROVISION FOR LOSSES**

- The following must be taken into account in determining the provision for losses on loan guarantees:
  - The principal amount outstanding;
  - Accrued and unpaid interest, if it is guaranteed; and
  - Amounts recoverable from the borrower and from the sale of assets pledged as security.
- The provision for losses on loan guarantees must be determined using the best estimates available in light of past events, current conditions, and all circumstances known at the date of preparation of the financial statements.
- Present value techniques may be used to measure the provision. The average borrowing rate of the government may be an appropriate discount rate.

**REMOVAL OF THE PROVISION OF LOSSES FROM THE FINANCIAL STATEMENTS**

- When the guaranteed loan has been discharged or the term of the guaranteed loan has expired, the provision for loss on the loan guaranteed must be removed from the government’s Statement of Financial Position.
- In the case where the government has made payments under the terms of a guarantee and has recourse to recover amounts paid from the borrower, these amounts must be accounted for in accordance with Section PS 3050, Loans Receivable.

**GUARANTEED LOANS TO BE REPAID FROM FUTURE GOVERNMENT ASSISTANCE**

- In the period when a direct relationship can be established between the repayment of the loan and the government’s funding to the borrower, the amount of the guaranteed loan that is expected to be repaid from future government assistance must be accounted for as a liability in the Statement of Financial Position and as an expense in the Statement of Operations.
- The portion of the assistance that is used to make principal payments on a guaranteed loan accounted for as described above must be charged against the liability.
- The portion of the assistance related to interest on the guaranteed loan must be recorded as an expense.
### CONTINGENT ASSETS

- **Contingent Assets** are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

- Contingent assets are distinct from assets since there is a degree of uncertainty as to whether an asset exists at the financial statement date.

- Contingent assets have two basic characteristics:
  - An existing condition or situation that is unresolved at the financial statement date; and
  - An expected future event that will resolve the uncertainty as to whether an asset exists. This event cannot be wholly within the control of the public sector entity.

### EXISTENCE OF UNCERTAINTY

- The following range of probabilities express the uncertainty relating to the occurrence or non-occurrence of the future event confirming that an asset existed at the financial statement date:
  - Likely - the probability of the occurrence / non-occurrence of the future event is high;
  - Unlikely - the probability of the occurrence / non-occurrence of the future event is slight; and
  - Not determinable - the probability of the occurrence / non-occurrence of the future event cannot be determined.

### DISCLOSURE

- The existence of a contingent asset at the date of the financial statements must be disclosed when the occurrence of the confirming future event is likely.

- The disclosure of the contingent asset should include:
  - The nature;
  - The extent, except where the extent cannot be measured or disclosure of the extent would have an adverse effect on the outcome;
  - The reason(s) for any non-disclosure of the extent; and
  - When an estimate of the amount has been made, the basis for the estimate.

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1 Earlier adoption of this Section is permitted.
Section PS 3380 - Contractual Rights

<table>
<thead>
<tr>
<th>CONTRACTUAL RIGHTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Contractual Rights</strong> are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.</td>
</tr>
<tr>
<td>• They arise out of a contract or agreement that is binding between two or more parties, has clear economic consequences and is enforceable by law. They may include contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.</td>
</tr>
<tr>
<td>• They are distinct from assets since no past transaction or event giving rise to an asset has occurred at the financial statement date.</td>
</tr>
<tr>
<td>• They are distinct from contingent assets since there is no uncertainty related to the existence of the contractual right.</td>
</tr>
<tr>
<td>• Contractual rights are governed by contract law and are distinct from certain public sector entity rights, such as the right to tax and the right to license. Such rights are derived from legislation based on constitutional authority or delegated constitutional authority.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DISCLOSURE</th>
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<tbody>
<tr>
<td>• A public sector entity’s financial statements must disclose information about its contractual rights. Professional judgment is required to determine which contractual rights to disclose. Factors to consider include:</td>
</tr>
<tr>
<td>• Contractual rights that are abnormal in relation to the financial position or unusual business operations; and</td>
</tr>
<tr>
<td>• Contractual rights that will govern the level of a certain type of revenue for a considerable period in the future.</td>
</tr>
<tr>
<td>• This disclosure must include a description of the nature, extent and timing.</td>
</tr>
</tbody>
</table>

1 Earlier adoption of this Section is permitted.
Section PS 3390 - Contractual Obligations

<table>
<thead>
<tr>
<th>CONTRACTUAL OBLIGATIONS</th>
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</thead>
<tbody>
<tr>
<td>• Obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met.</td>
</tr>
<tr>
<td>• They are distinct from liabilities since no past transaction or event obligating the government to a future sacrifice of economic benefits has occurred at the financial statement date.</td>
</tr>
<tr>
<td>• The government does not have a liability until a transaction or event under a contract occurs.</td>
</tr>
<tr>
<td>• Disclosure of contractual obligations relates to the unperformed portion of these contracts.</td>
</tr>
<tr>
<td>• They are distinct from contingent liabilities since there is no uncertainty related to the existence of the contractual obligation.</td>
</tr>
</tbody>
</table>

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<tr>
<th>DISCLOSURE</th>
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<tbody>
<tr>
<td>• A government’s financial statements must disclose information about a government’s contractual obligations. This disclosure must be provided in the notes or schedules of the financial statements and a description of the nature, extent and timing of the related expenditures must be included.</td>
</tr>
</tbody>
</table>
Section PS 3410 - Government Transfers

DEFINITIONS

Applies to:
- Accounting for and reporting government transfers to individuals, organizations and other governments from both a transferring government’s perspective and a recipient government’s perspective.

Does not apply to:
- Transfers made through a tax system that are authorized through tax legislation (refer to paragraph .41 of Section PS 3510, Tax Revenue);
- Grants in lieu of taxes;
- Settlements of lawsuits or other types of legal compensation provided by governments;
- Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments; and
- Transfers of non-monetary assets other than tangible capital assets, such as transfers of purchased natural resources and rights, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures.

SCOPE

Effective Date
Fiscal periods beginning on or after April 1, 2012

RECOGNITION

- Government transfer programs are discretionary and entirely under the direction of the transferring government, although there may be negotiation of transfer terms.
- The transferring government has the ability to impose transfer terms referred to as eligibility criteria and stipulations (described above).
- Symmetrical accounting by the transferor and the recipient of a government transfer is not required by this Section.

- For transferring and recipient governments, recognition requirements apply equally to operating transfers, capital transfers, and transfers of tangible capital assets.

ELIGIBILITY CRITERIA

- Terms imposed by a transferring government that specify who qualifies to receive a transfer and/or the actions necessary to qualify for a transfer.
- Have a nature and substance that require they be met before a transfer is provided. They are pre-conditions that must be satisfied in advance for a recipient to qualify for a transfer.

STIPULATIONS

- Terms imposed by a transferring government regarding the use of transferred resources or the actions a recipient must perform in order to keep a transfer.
- Have a nature and substance that require they be met after a transfer is provided. They must be met by recipients who have already qualified to receive a transfer by meeting eligibility criteria, or have already received a transfer.
- They are often terms that need to be satisfied through direct application of the transfer.

GOVERNMENT TRANSFERS

- Transfers of monetary assets or tangible capital assets from a government to an individual, an organization, or another government for which the government making the transfer does not:
  - Receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
  - Expect to be repaid in the future, as would be expected in a loan; or
  - Expect a direct financial return, as would be expected in an investment.

TRANSFERRED GOVERNMENT

- Recognizes a government transfer as an expense in the period:
  - The transfer is authorized;
  - All eligibility criteria have been met by the recipient.

1 Earlier adoption of this Section is encouraged. This Section may be applied retroactively or prospectively.
2 Governments are not precluded from applying the standards if, in their judgment, the standards are appropriate because their grants in lieu of taxes have the characteristics of government transfers.
3 CPP and QPP payments are not considered to meet the definition of a government transfer.
4 In accordance with Section PS 1000, Financial Statement Concepts, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements.
5 Refer to paragraphs PS 3410.28-32 for guidance on authorization for transferring governments.
- Recognizes a transfer without eligibility criteria or stipulations as revenue when:
  - The transfer is authorized.

- Recognizes a transfer with eligibility criteria but without stipulations as revenue when:
  - The transfer is authorized; and
  - All eligibility criteria have been met.

When a recipient government creates an obligation meeting the definition of a liability before the financial statement date to use a transfer received without stipulations, the two events (the receipt of the transfer and the creation of a liability) are recognized separately.

- Recognizes a transfer with or without eligibility criteria but with stipulations as revenue in the period:
  - The transfer is authorized; and
  - All eligibility criteria have been met, except when and to the extent that:
    - The transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with Section PS 3200, Liabilities.

In determining whether a liability would result for a recipient government in relation to a transfer the following would influence the decisions:

- The stipulations of the transfer alone; or
- The stipulations of the transfer together with the actions and communications of the recipient government before the financial statement date; and
- Whether an obligation meeting the definition of a liability in PS 3200 would be created in either set of circumstances.

Refer to paragraphs PS 3410.21-.24 for more guidance on determining whether a liability would result in relation to a transfer.

A liability recognized in accordance with paragraph PS 3410 is reduced and an equivalent amount of revenue is recognized as the liability is settled. Revenue recognition must occur in a manner consistent with the circumstances and evidence used to support the initial recognition of the transfer as a liability.

Refer to paragraphs PS 3410.26-.27 for more guidance on revenue recognition.

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6 Refer to paragraphs PS 3410.33-34 for guidance on authorization for recipient governments.
Section PS 3420 - Inter-entity Transactions

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.

Does not apply to:
- Restructuring transactions;
- Transactions between a partner and a government partnership (see Section PS 3060, Government 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.

1 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.
2 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.
Section PS 3430 - Restructuring Transactions

SCOPE

Applies to:
- All restructuring transactions that meet the definition below.
- Only entities that adhere to the standards for the PSA Handbook for their financial reporting.

Does not apply to:
- Acquisitions of a group of assets, an operation or an entity;
- Contributions of assets or assumptions of liability; or
- Disposal and abandonment of assets, or discontinuance of operations that is not part of a restructuring transaction.

Accounting for acquisitions for an operation or an entity is addressed in Section PS 2510, Additional Areas of Consolidation, and Section PS 3070, Investment in Government Business Enterprises.

RESTRUCTURING TRANSACTIONS

- A restructuring transaction is a transfer of an integrated set of assets and/or liabilities together with related program or operation responsibilities without consideration based primarily on the fair value of the individual assets and liabilities transferred.
- Restructurings can be initiated by the entities involved or can be imposed by a higher level of government through legislation or by the controlling government.
- There can be more than one transferor and one recipient in a restructuring transaction.
- An entity can be both a transferor and a recipient if it transfers and receives assets and/or liabilities, together with related program or operating responsibilities, to/from one or more entities within a restructuring transaction.

Examples of restructuring activities include, but are not limited to:
- Amalgamations of entities or operations within the government reporting entity;
- Amalgamations of local governments;
- Annexation or boundary alteration between neighbouring local governments;
- Transfers of operations or programs from one entity to another; and
- Shared service arrangements entered into by local governments in a region.

CHARACTERISTICS OF RESTRUCTURING TRANSACTIONS

- The key characteristics of restructuring transactions are:
  - Their non-purchase nature, which is generally reflected by the absence of considerations that is primarily based on, but not necessarily equal to, the fair value of the individual assets and liabilities transferred. This is the key distinction between a restructuring transaction and an acquisition.
  - The transfer of an integrated set of assets and/or liabilities that are not random or unrelated, but instead are an integrated set that is somewhat complete in supporting the related program or operation that is transferred. This is the key distinction between a restructuring transaction and an acquisition of a group of assets or an assumption of liabilities.
  - The transfer of program or operating responsibilities previously performed by the transferor that are related to the assets and liabilities transferred to the recipient. This distinguishes a restructuring transaction from receipts of contributions, gifts or government transfers.

1 This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted. Section PS 2120, Accounting Changes, does not apply to this Section.
### RECOGNITION

#### ASSETS AND LIABILITIES TRANSFERRED AND RECEIVED

- At the restructuring date individual assets and liabilities received in a restructuring transaction are recognized by the recipient and derecognized by the transferor.
- The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors and transferred to all recipients in a restructuring transaction is recognized as revenue or as an expense.

#### COMPENSATION

- If the compensation is dependent on the occurrence of future events or transactions, the entities involved would assess the nature and terms of the compensation against the individual Sections of the PSA Handbook to determine if the compensation gives rise to an asset or liability at the restructuring date.
- If the compensation is not dependent on the occurrence of future events or transactions, it is recognized as an expense and revenue at the restructuring date, regardless of when the payment is made.

#### RESTUCTURING-RELATED COSTS AND EVENTS

- Restructuring-related costs are recognized as an expense when incurred in accordance with individual Sections of the PSA Handbook.
- Restructuring may give rise to certain events or transactions that are not part of the restructuring transactions. These events or transactions would be accounted for in accordance with individual Sections of the PSA Handbook.

### MEASUREMENT

#### INDIVIDUAL ASSETS AND LIABILITIES TO BE TRANSFERRED

- Prior to the restructuring date, a transferor continues to measure individual assets and liabilities to be transferred in an upcoming restructuring transaction on the same basis.
- For example, a transferor does not write down a tangible capital asset that will be transferred in a restructuring transaction simply because of the upcoming restructuring or its expected change in use after the restructuring. The transferor only considers any change in the use of the asset prior to the restructuring date to determine whether a write-down is required in accordance with Section PS 3150, Tangible Capital Assets.

#### INDIVIDUAL ASSETS AND LIABILITIES TRANSFERRED AND RECEIVED

- At the restructuring date:
  - A transferor derecognizes the individual assets and liabilities transferred at their carrying amount.
  - A recipient recognizes the individual assets and liabilities received at their carrying amount and makes the following adjustments, where applicable:
    - To comply with PSA standards;
    - To align with accounting policies, methods and assumptions to be adopted by the recipient; and
    - To reflect the circumstances of the recipient.

### CLASSIFICATION

- The recipient initially classifies individual assets and liabilities received in a restructuring transaction based on its accounting policy and circumstances at the restructuring date.

### PRESENTATION

- The net effect of a restructuring transaction must be presented as a separate revenue or expense item in the Statement of Operations.
- Neither a transferor nor a recipient restates its financial position or results of operations prior to the restructuring date to retroactively report the effects of a restructuring transaction in its financial statements as if the restructuring transaction took place prior to the restructuring date.
DEFINITIONS

Effective Date
Fiscal years beginning on or after April 1, 2019

FINANCIAL INSTRUMENT
- A contract that creates a financial asset for one entity and a financial liability or equity instrument for another entity.

FINANCIAL ASSET
- An asset that can be used to discharge existing liabilities or finance future operations and is not for consumption in the normal course of operations.

FINANCIAL LIABILITY
- Any liability that is a contractual obligation:
  - To deliver cash or another financial asset to another entity; or
  - To exchange financial instruments with another entity under conditions that are potentially unfavourable to a government.

EQUITY INSTRUMENT
- Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

DERIVATIVE
- A financial instrument or contract within the scope of this Section that has all three of the following characteristics:
  - It’s value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the “underlying”);
  - It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
  - It is settled at a future date(s).

RECOGNITION

- A financial asset of financial liability is recognized by a government on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument.
- Contracts that contain one or more embedded derivatives must be identified by a government and the guidance in paragraphs PS 3450.A18-.A26 must be followed to determine whether the government is to recognize the embedded derivative.

MEASUREMENT

MEASUREMENT CATEGORIES

- All financial instruments within the scope of PS 3450 must be measured in one of the following two categories:
  - Fair value; or
  - Cost or amortized cost.

- Fair value
  - The following must be included in the fair value category:
    - Derivatives; and
    - Portfolio investments in equity instruments that are quoted in an active market.

  - When a government defines and implements a risk management or investment strategy that is used to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the government can choose to include those items that are within the scope of PS 3450 in the fair value category. This is an accounting policy decision.

  - A contract that contains one or more embedded derivative can be designated to be carried at fair value, unless:
    - The cash flows that otherwise would be required by the contract are not significantly modified by the embedded derivative(s); or
    - The application of paragraphs PS 3450.A18-.A26 prohibits separation of the embedded derivative(s).

  - When a government measures financial instruments in the fair value category, the guidance in paragraphs PS 3450.A27-.A40 must be applied.

1 For those government organizations that applied the CPA Canada Handbook - Accounting prior to their adoption of the CPA Canada Public Sector Accounting Handbook, this Section applies to fiscal years beginning on or after April 1, 2012. Governments and government organizations would also adopt Section PS 2601, Foreign Currency Translation, at the same time. Earlier adoption is permitted.
2 Note: This definition of a financial asset in Section PS 3450, Financial Instruments, is not the same as the definition of a financial asset in paragraph .40 of Section PS 1000, Financial Statement Concepts. Refer to paragraphs PS 3450.A4-.AR for more guidance on financial assets.
3 When derivatives are linked to and must be settled by delivery of unquoted equity instruments they must be measured at cost.
### Measurement Categories (continued)

- Remeasurement gains and losses
  - For a financial instrument in the fair value category, a change in fair value must be recognized as a remeasurement gain or loss in the Statement of Remeasurement gains and losses until the financial instrument is derecognized.
  - For a financial instrument in the fair value category that is externally restricted, a change in fair value must be recognized in accordance with the requirements in paragraphs .11-.12 of Section PS 3100, Restricted Assets and Revenues.
  - At the time when a financial instrument in the fair value category is derecognized, the associated accumulated remeasurement gains and losses are reversed and reclassified to the Statement of Operations.

### Effective Interest Method

- Must be used by a government when measuring interest for instruments measured at amortized cost.
- Refer to paragraphs PS 3450.A41-A45 for more guidance on the effective interest method.

### Transaction Costs

- When an item is in the cost or amortized cost category, transaction costs are added to the carrying value of the item upon initial recognition.
- When an item is in the fair value category, transaction costs are expensed upon initial recognition.

### Impairment of Financial Assets

- A government must perform an assessment of impairment on financial assets / groups of financial assets at each financial statement date. If any objective evidence of impairment exists as a result of this assessment, a government applies:
  - Section PS 3041, Portfolio Investments, in assessing whether any such investments are impaired and to account for any impairment; or
  - Section PS 3050, Loans Receivable, in assessing whether any such receivables are impaired and to account for any impairment.
- A government reports impairment losses in its Statement of Operations.

### Derecognition of a Financial Liability

- A financial liability / part of a financial liability is extinguished when the debtor either:
  - Discharges the liability / part of the liability by paying the creditor; or
  - Is legally released from the primary responsibility for the liability / part of the liability by the creditor or by process of law.
- When debt instruments that have substantially different terms are exchanged between the lender and the existing borrower, the original financial liability must be extinguished and a new financial liability must be recognized.
- When the terms of an existing financial liability / part of an existing financial liability are substantially modified, the original financial liability must be extinguished and a new financial liability must be recognized.
- Refer to paragraph PS 3450.049 for guidance on determining when the terms are substantially different.
- A revenue or expense must be recognized in the Statement of Operations for the difference between the carrying amount of a financial liability / part of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

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4 See also our publication PSAB AT A GLANCE: Section PS 3100 - Restricted Assets and Revenues.
PRESENTATION

- Interest, dividends, gains and losses
  - Interest and dividends related to financial instruments and net settlements on derivative financial instruments attributable to the reporting period are recognized in the Statement of Operations.
  - A gain or loss is recognized in the Statement of Operations upon derecognition of a financial instrument.
  - A gain or loss related to a financial instrument that is externally restricted is recognized as a liability until the financial instrument is used for the purpose specified, in accordance with the requirements of paragraphs .11-.12 of Section PS 3100.

- Offsetting of a financial asset and a financial liability
  - May only happen when:
    - The government has a legally enforceable right to set off the recognized amounts; and
    - The government intends to either settle on a net basis, or simultaneously realize the asset and settle the liability.

DISCLOSURE

- A government is required to disclose information that would allow users to assess the impact of financial instruments on its financial position and changes in its financial position. The following disclosures are required.

STATEMENT OF FINANCIAL POSITION

- Carrying amount of each category of financial assets and liabilities are disclosed on the face of the Statement of Financial Position or in the notes.
- The disclosures outlined in paragraphs PS 3450.051-.054 are required for any items the government holds at the financial statement date that it has designated to the fair value category.
- Information on financial assets pledged as collateral.
- Details of defaults and breaches of loans payable.

STATEMENT OF REMEASUREMENT GAINS & LOSSES

- Remeasurement gains and losses are reported distinguishing between amounts occurring in the period and amounts derecognized during the period which have been reclassified to the Statement of Operations.
- Remeasurement gains and losses are presented distinguishing between those related to derivatives, portfolio investments in equity instruments quoted in an active market; and financial instruments designated to the fair value category.

OTHER DISCLOSURES

- Accounting policies
  - All relevant accounting policies, including the measurement basis used.
  - Derivatives
    - Explanation of the purpose of the government’s use of derivatives and how the derivatives support managing the nature and extent of risks arising from the government’s financial instruments in accordance with paragraphs PS 3450.085-.096.
    - For derivatives or items designated in the fair value category, a government must disclose the methods, and when a valuation technique is used, relevant assumptions applied, in determining fair value.

FAIR VALUE HIERARCHY

- All financial instruments measured at fair value must be classified into one of the following levels, which reflect how fair value has been determined:
  - Level 1 - Quoted prices (unadjusted) in active markets for identical assets / liabilities;
  - Level 2 - Inputs other than those in Level 1, that are either directly or indirectly observable for the assets or liability; and
  - Level 3 - Inputs that are not based on observable market data (unobservable inputs).
- A financial instrument that uses inputs from more than one level is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

- The following disclosures are required for each class of financial instruments measured at fair value that are recognized in the Statement of Financial Position:
  - The level that the fair value measurements are categorized in.
  - Significant transfers of financial instruments between each category and reasons why. Transfers into and out of each level must be disclosed separately.
  - For Level 3 items:
    - A reconciliation between opening and closing balances, including gains / losses, purchases / sales / issues and settlements, and transfers in and out of Level 3 and the reasons why; and
    - If changing one or more inputs to a reasonably possible alternative would result in a significant change in fair value, this fact and the effect of the change must be disclosed.
  - When a government uses a valuation technique to determine fair value, and there is a difference between fair value at initial recognition and fair value using the valuation technique the following must be disclosed by class of financial instrument:
    - The accounting policy for reporting that difference in remeasurement gains and losses to reflect a change in factors that market participants would consider in setting a price; and
    - The aggregate difference yet to be reported in remeasurement gains and losses at the beginning and end of the period and a reconciliation of the changes in the balance of this difference.
  - Unless a government discloses the quoted market value and the carrying value for portfolio investments in the cost / amortized cost categories, disclosure of fair values is not required for these instruments.
A government is required to disclose information that would allow users to assess the nature and extent of the risks the government is exposed to as a result of its financial instruments at the financial statement date.

## Qualitative Disclosure

The following must be disclosed for each type of financial instrument risk:
- Exposure to the risk and how it arises;
- Objectives, policies and processes for managing the risk and methods used to measure the risk; and
- Any changes in the above from the previous period.

## Quantitative Disclosure

The following must be disclosed for each type of financial instrument risk:
- Summary quantitative data about exposure to that risk at the financial statement date based on information provided by key management; and
- Concentration of risks.

### Credit Risk
- The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- A government must disclose:
  - Maximum exposure to credit risk without taking into account collateral held or other credit enhancements and their financial effect;
  - A description of collateral held as security and other credit enhancements; and
  - Information on credit quality of financial assets that are neither past due or impaired.

### Liquidity Risk
- The risk that a government will encounter difficulty in meeting obligations associated with financial liabilities.
- A government must disclose:
  - A maturity analysis for non-derivative financial liabilities showing the remaining contractual maturities;
  - A maturity analysis for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of cash flows; and
  - A description of how liquidity risk in the above is managed.

### Market Risk
- The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risk: currency risk, interest rate risk and other price risk.
- A government must disclose:
  - A sensitivity analysis (including methods and assumptions used) for each type of market risk the government is exposed to, showing impact on operating results (and remeasurement gains and losses when necessary); and
  - Any changes from the prior period, and reasons for the changes, in methods and assumptions used.

**OR**
- If a sensitivity analysis is prepared by the government, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis.
- If this sensitivity analysis is used the following must also be disclosed:
  - Explanation of the methods used (including main parameters and assumptions underlying the data) in preparing the analysis; and
  - Explanation of the objective of the method used and limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.
- If the sensitivity analysis is unrepresentative of an inherent risk in a financial statement this would be disclosed with the reasons why.

### Other Qualitative Risk Disclosures
- Financial assets either past due or impaired
  - By class of financial asset the following must be disclosed:
    - Analysis of the age of financial assets past due, but not impaired at the financial statement date; and
    - Analysis of financial assets that are individually determined to be impaired at the financial statement date (including factors considered in determining they are impaired).
- Collateral and other credit enhancements obtained
  - The following must be disclosed for any financial or non-financial assets that were obtained during the period by taking possession of collateral the government holds as security or calling on other credit enhancements:
    - Nature and carrying amount; and
    - Policies for disposing of such assets or for using them in the government’s operations, when they are not readily convertible into cash.
Section PS 3510 - Tax Revenue

Effective Date

Fiscal periods beginning on or after April 1, 2012

SCOPE

Appplies to:
• Accounting for and reporting tax revenue in government financial statements.

Does not apply to:
• Revenue recognition of developer charges, which is addressed in PS 3100, Restricted Assets and Revenues;
• Revenue recognition of resource royalties;
• Fines or penalties, such as those imposed for breaches of tax law;
• Interest earned on tax receivables;
• Transactions that are more in the nature of exchange transactions, such as user fees, license or permit fees; or
• Non-compulsory transfers to the government or entities charged with tax collection for the government, such as donations, contributions and the payment of fees.

TAXES

• Economic resources compulsorily paid or payable to governments in accordance with laws and/or regulations normally established to provide revenue for public purposes to the government.
• Tax transactions are non-exchange transactions.
• A major source of revenue for governments.

RECOGNITION

• Taxes must be recognized as assets and revenues when:
  • They meet the definition of an asset set out in PS 1000, Financial Statement Concepts;
  • They are authorized as described in paragraph PS 3510.17; and
  • The taxable event occurs.
• A government only recognizes tax revenue it expects to collect in accordance with the general recognition criteria set out in paragraph PS 1000.55.

ATTRIBUTION OF TAX REVENUE

• A government is considered to have imposed a tax and would recognize tax revenue if the government directly levies the tax:
  • By exercising the taxing authority provided in its own legislation, regulations or by-laws (for example, income taxes); or
  • In accordance with the taxing authority granted to it in the legislation of another level of government (for example, municipalities granted taxing authority under provincial legislation).

AUTHORIZATION

• For revenue recognition purposes a tax is considered authorized by a legislature / council when the effective date of the tax has passed and the earlier of the following has occurred:
  • The legislature / council has approved the related legislation, regulations or by-laws; or
  • Through legislative convention the ability to assess and collect tax has been provided.
• Refer to paragraph PS 3510.19 for more information on legislative convention.

THE TAXABLE EVENT

• The event that the government, legislature, council or other authority has determined will be subject to taxation.
• To determine what the taxable event is for the purposes of paragraph PS 3510.08, a government examines the tax law in its own jurisdiction.
• Refer to paragraph PS 3510.20 for examples of taxable events.

TAXES RECEIVED IN ADVANCE

• If taxes are received in advance of the recognition criteria set out in paragraph PS 3510.08 being met, they are recognized as a liability until the recognition criteria are met, which is normally as the taxable event occurs.

TAXES IMPOSED / COLLECTED ON BEHALF OF OTHERS

• Pursuant to an existing agreement / legislation in place at the financial statement date that is purely a flow-through arrangement; a government may impose a tax on behalf of another government or other public sector entity.
• When amounts are collected by an agent of the government / other third party these amounts do not increase the net assets or revenue of the agent.
• The government imposing / collecting the tax on behalf of others does not recognize tax revenue.
### MEASUREMENT

#### INITIAL MEASUREMENT

- An asset that is acquired through a tax transaction must be initially measured at its realizable value at the date of acquisition.
- Realizable value is the amount of cash or cash equivalents that an asset is expected to be converted into in the due course of operations.
- Any adjustments to tax revenue resulting from a change in estimate are accounted for in accordance with Section PS 2120, Accounting Changes.
- If a government receives other types of assets to settle outstanding taxes receivable, these assets are measured at their fair value as at the date of acquisition by the government to determine whether they settle the entire tax receivable or whether a balance receivable remains or a refund is owed.
- Administrative costs or other expenses related to tax revenue transactions are recognized separate from tax revenue as an expense related to the transaction.

#### SUBSEQUENT MEASUREMENT

- A government must evaluate the likelihood of having to repay taxes collected under tax measures deemed to be authorized using the concept of legislative convention set out in paragraph PS 3510.17(b) and recognize a liability when required by Section PS 3200, Liabilities, at each financial statement date.
- Related refunds must be accounted for as a change in estimate in accordance with PS 2120, Accounting Changes.

### TRANSFERS MADE THROUGH A TAX SYSTEM AND TAX CONCESSIONS

- Transfers made through a tax system must be recognized as an expense, not as a reduction of tax revenue.
- Tax revenue cannot be grossed up for the amount of tax concessions.
- In determining whether to classify a payment or reduction in taxes payable as a transfer made through a tax system or as a tax concession professional judgment must be applied. The following would be considered by a government when classifying an item:
  - The definitions of tax concessions and transfers made through a tax system set out in paragraph PS 3510.07;
  - The criteria set out in paragraphs PS 3510.37-.44; and
  - The decision tree provided in Appendix A to PS 3510.

#### TRANSFERS MADE THROUGH A TAX SYSTEM

- Financial benefits provided or determined through a tax system that are made for a purpose other than the relieving of taxes previously paid or currently owing.
- Refer to paragraphs PS 3510.37-.41 for additional guidance.

#### TAX CONCESSIONS

- Referential provisions of the tax law that are only available to taxpayers and can include exemptions, deductions, deferrals and credits that affect the level and distribution of tax.
- May include special tax rates.
- Provide tax relief of taxes previously paid or currently owing and are seen as “foregone revenue”.
- Often referred to as “tax expenditures”.
- Refer to paragraphs PS 3510.42-.44 for additional guidance.
**Introduction to Accounting Standards that Apply only to Government Not-for-Profit Organizations (the PS 4200 Series)**

**NOT-FOR-PROFIT ORGANIZATION (NPO)**
- An entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A NPO’s members, contributors and other resource providers do not, in such capacity, receive any financial return directly from an organization.

**GOVERNMENT NOT-FOR-PROFIT ORGANIZATION (GNPO)**
- A GNPO is a government organization that meets the definition of a not-for-profit organization outlined above and has counterparts outside the public sector as defined in paragraph .07 of the Introduction to Public Sector Accounting Standards.

**GENERAL**
- The PS 4200 Series of Sections included in the PSA Handbook is only applicable to GNPOs. GNPOs have a choice of applying the PSA Handbook with or without the PS 4200 Series of Sections.

**APPLICABILITY OF OTHER PSA HANDBOOK SECTIONS TO GNPOs FOLLOWING THE PSA HANDBOOK WITH THE PS 4200 SERIES**

### GENERAL APPLICABILITY
- Means the following Sections addresses matters that should be considered by all GNPOs.
  - PS 1000, Financial Statement Concepts
  - PS 1201, Financial Statement Presentation
  - PS 1300, Inter-entity Transactions
  - PS 2000, Contra-Accounts
  - PS 2100, Disclosure of Accounting Policies
  - PS 2120, Accounting Changes
  - PS 2130, Measurement Uncertainty
  - PS 2400, Subsequent Events
  - PS 2700, Segment Disclosures
  - PS 3000, Contingent Liabilities
  - PS 3300, Long-term Debt
  - PS 3310, Loan Guarantees
  - PS 3400, Financial Instruments

### APPLICABLE WHERE RELEVANT TRANSACTIONS OR CIRCUMSTANCES EXIST
- Means the following Sections apply to GNPOs when they have transactions or circumstances that are dealt with by the Section.
  - PS 2500, Basic Principles of Consolidation
  - PS 2510, Additional Areas of Consolidation
  - PS 2601, Foreign Currency Translation
  - PS 3041, Portfolio Investments
  - PS 3050, Loans Receivable
  - PS 3060, Government Partnerships
  - PS 3200, Liabilities
  - PS 3230, Long-term Debt
  - PS 3250, Retirement Benefits
  - PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits
  - PS 3270, Solid Waste Landfill Closure and Post-closure Liability
  - PS 3310, Loan Guarantees
  - PS 3450, Financial Instruments

### LIMITED OR NO APPLICABILITY
- Means the following Sections have very limited or no applicability to GNPOs.
  - PS 1300, Government Reporting Entity
    - For GNPOs Section PS 4250, Reporting Controlled and Related Entities by NPOs, applies instead.
  - PS 2200, Related Party Disclosures
    - For GNPOs Section PS 4260, Disclosure of Related Party Transactions by NPOs, applies instead.
  - PS 3070, Investments in Government Business Enterprises
    - For GNPOs Section PS 4250, Reporting Controlled and Related Entities by NPOs, applies instead.
  - PS 3100, Restricted Assets and Revenues
    - For GNPOs Section PS 4210, Contributions - Revenue Recognition, applies instead.
  - PS 3150, Tangible Capital Assets
    - For GNPOs Section PS 4230, Capital Assets Held by NPOs, applies instead.
  - PS 3410, Government Transfers
    - For GNPOs Section PS 3200, Liabilities, applies for grants made and Section PS 4210, Contributions - Revenue Recognition, applies for government grants received instead.

*Segment disclosures should only be provided when a government organization’s operations are diverse enough to warrant such disclosures.*
## Section PS 4200 - Financial Statement Presentation by Not-for-Profit Organizations

### Effective Date
Fiscal periods beginning on or after January 1, 2012

### Components of Financial Statements

**Financial statements of a government not-for-profit organization normally include:**
- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets (can be combined with the Statement of Operations)
- Statement of Remeasurement Gains and Losses
- Statement of Cash Flows
- Notes
- Supporting schedules

All statements are required to be presented with equal prominence.

Notes and supporting schedules which the financial statements are cross-referenced to are an integral part of the financial statements. The same does not apply to information set out in other material attached to or submitted with the financial statements.

### Fund Accounting

- Comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources.
- An organization makes an accounting policy choice whether or not to use fund accounting.
- An organization that uses fund accounting must provide a brief description of the purpose of each fund reported in its financial statements. This description would include the types of expenses reported in the fund and the extent to which the fund is used to report restricted resources.
- Each fund reported would be presented on a consistent basis from year to year. A change in the revenues and expenses reported in a particular fund would constitute a change in accounting policy unless the change results from events / transactions clearly different from those that previously occurred or those occurring for the first time.
- When an organization uses fund accounting it may present its financial statements using the multi-column format where resources / similar groups of resources are each assigned to a separate column.
- Interfund transfers must be presented in the Statement of Changes in Net Assets as transfers between funds or transfers between funds and reserves during a reporting period do not increase / decrease the economic resources of an organization as a whole.

### Interfund Transfers and Balances

- Interfund transfers must be presented in the Statement of Changes in Net Assets as transfers between funds or transfers between funds and reserves during a reporting period do not increase / decrease the economic resources of an organization as a whole.
- An organization must disclose the amount and purpose of interfund transfers during the reporting period.
- An organization must disclose the amounts, terms and conditions of interfund loans outstanding at the reporting date.
- When a multi-column format is used to present an organization’s financial statements, interfund loans and advances are presented in the individual funds and eliminated in the totals column of the Statement of Financial Position.
- When a single column format is used, only the notes to the financial statements would provide disclosure of interfund loans and amounts receivable.

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1. PS 4200 covers the presentation and disclosure requirements for financial statements of government not-for-profit organizations (GNPOs), excluding general reporting principles, the Statement of Cash Flows and the Statement of Remeasurement Gains and Losses for which guidance is provided in PS 1201 - Financial Statement Presentation. For more information on these areas, please refer to our publication "PSAB AT A GLANCE: PS 1201 - Financial Statement Presentation".

2. A Statement of Remeasurement Gains and Losses may be required by application of Sections PS 2601, Foreign Currency Translation, and PS 3450, Financial Instruments.
CONTRIBUTIONS

- In accounting for contributions a GNPO follows either the deferral method or the restricted fund method which are set out in Section PS 4210, Contributions - Revenue Recognition. Our publication “PSAB AT A GLANCE - Contributions” also provides a discussion of these two methods. The choice a GNPO makes in accounting for contributions has implications for its financial statement presentation.

STRUCTURE AND CONTENT

GENERAL

- A GNPO’s financial statements must include a clear and concise description of the organization’s purpose, intended community of service, status under income tax legislation and legal form.

STATEMENT OF FINANCIAL POSITION

- Must present a total that includes all funds reported for each financial statement item.
- Must present the following:
  - Net assets subject to restrictions requiring they be maintained permanently as endowments;
  - Other restricted net assets;
  - Unrestricted net assets; and
  - Total net assets.
- Current assets are presented separately from non-current assets and current liabilities are presented separately from non-current liabilities.
- Cash and other assets subject to external restrictions that limit their use to beyond one year from the date of the Statement of Financial Position are classified as non-current assets.

STATEMENT OF OPERATIONS

- GNPOs can classify expenses by object (i.e. salaries, rent), by function (i.e. administration, research) or by program. The classification that results in the most meaningful presentation should be used.
- Statement of Operations - Deferral Method
  - The Statement of Operations must present the following:
    - A total that includes all funds reported for each financial statement item; and
    - The total excess or deficiency of revenues and gains over expenses and losses for the period.
  - The statement should present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items.
- Statement of Operations - Restricted Fund Method
  - The Statement of Operations must present the following for the period:
    - A total for each financial statement item recognized in the general fund;
    - The total for each financial statement item recognized in the restricted funds, other than the endowment fund;
    - The total for each financial statement item recognized in the endowment fund; and
    - The excess or deficiency of revenues and gains over expenses and losses for each of the general fund, restricted funds other than the endowment fund and the endowment fund.
  - The statement should present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items.
- Presentation of Revenues and Expenses
  - When an organization is acting as the principal in transactions, revenue and expenses must be recognized and presented at their gross amounts.
  - When an organization is not acting as the principal in transactions, such as when it has earned a commission / fee or received the equivalent of a contribution, it recognizes only the net amount received.
STATEMENT OF CHANGES IN NET ASSETS

- Must present changes in the following for the period:
  - Net assets subject to restrictions requiring that they be maintained permanently as endowments;
  - Internally restricted net assets and, separately, externally restricted net assets other than those requiring that they be maintained permanently as endowments;
  - Unrestricted net assets; and
  - Total net assets.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

- Must be prepared in accordance with Section PS 1201, Financial Statement Presentation.
- Refer to our publication “PSAB AT A GLANCE: PS 1201 - Financial Statement Presentation” for information on what is included in the Statement of Remeasurement Gains and Losses.

STATEMENT OF CASH FLOWS

- Must be prepared in accordance with Section PS 1201, Financial Statement Presentation.
- Refer to our publication “PSAB AT A GLANCE: PS 1201 - Financial Statement Presentation” for information on what is included in the Statement of Cash Flows.
- Refer to paragraphs PS 4200.51-.52 for details on what would be included under the cash flows from operations, financing activities and investing activities sections of the Statement of Cash Flows.
Contributions

DEFINITIONS

**CONTRIBUTION**
- Contribution
  - A non-reciprocal transfer to a GNPO of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities.
  - Government funding provided to a GNPO is considered a contribution. Refer to paragraphs PS 4210.08-.09 for more guidance on determining whether government funding received is a restricted or unrestricted contribution.
  - There are **three** types of contributions:
    - **Restricted contribution**
      - A contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used.
      - For example, a contribution restricted for the purchase of a capital asset or a contributed capital asset is a type of restricted contribution.
    - **Endowment contribution**
      - A type of restricted contribution subject to externally imposed stipulations specifying the resources contributed be maintained permanently, although the constituent assets may change from time to time.
    - **Unrestricted contribution**
      - A contribution that is neither a restricted contribution nor an endowment contribution.

**RESTRICTIONS**
- Stipulations imposed that specify how resources must be used.
- External restrictions are imposed from outside the organization, usually by the contributor of the resource.
- Internal restrictions are imposed in a formal manner by the organization itself, usually by a resolution of the board of directors.
- Restrictions on contributions may only be externally imposed.
- Net assets / fund balances may be internally or externally restricted. Internally restricted net assets / fund balances are often referred to as reserves or appropriations.

SCOPE

**Applies to:**
- Contributions, related investment income and contributions receivable.

**Does not apply to:**
- Recognition of other revenue by GNPOs, such as revenue arising from the sale of services or goods (see Section PS 1201, Financial Statement Presentation).

REVENUE RECOGNITION

- A GNPO must recognize contributions in accordance with either:
  - The deferral method; or
  - The restricted fund method.
- The method chosen must be applied consistently to all contributions received. An organization that changes its method of accounting for contributions treats that change as a change in accounting policy in accordance with Section PS 2120, Accounting Changes.

CONTRIBUTED MATERIALS AND SERVICES

- An organization may choose to recognize contributed materials and services, but only when:
  - The fair value can be reasonably estimated; and
  - The materials and services are used in the normal course of the organizations operations and would have been purchased otherwise.
- Contributed materials and services that are part of a constructed / developed capital asset are recognized at fair value in accordance with Section PS 4230, Capital Assets Held by Not-for-Profit Organizations.

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1 Includes Section PS 4210 - Contributions - Revenue Recognition and Section PS 4220 - Contributions Receivable.
2 See also our publication PSAB AT A GLANCE: Section PS 1201 - Financial Statement Presentation.
3 See also our publication PSAB AT A GLANCE: Section PS 4230 - Capital Assets Held by Not-for-Profit Organizations.
MEASUREMENT

• Contributions must be measured at fair value at the date of contribution if fair value can be reasonably estimated.

DEFERRAL METHOD

• Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred.
• Restricted contributions for which related restrictions remain unfulfilled are accumulated as deferred contributions.
• All other contributions are reported as revenue of the current period.
• Organizations that use fund accounting in their financial statements without following the restricted fund method, account for contributions under the deferral method.

RECOGNITION

• Endowment contributions
  • Must be recognized as direct increases in net assets in the current period.

• Restricted contributions for expenses of one or more future periods
  • Must be deferred and recognized as revenue in the same period / periods in which the related expenses are recognized.

• Restricted contributions for the purchase of capital assets
  • That will be amortized - must be deferred and recognized as revenue on the same basis as the amortization expense related to the capital assets acquired.
  • That will not be amortized - must be recognized as direct increases in net assets.
  • Refer to the guidance provided in paragraph PS 4210.37 on how to account for contributions for the purchase of capital assets when a GNPO meets the criteria outlined in paragraph PS 4230.03 and expenses capital assets on acquisition or capitalizes capital assets but does not amortize them.

• Restricted contributions for the repayment of debt
  • That was incurred to fund expenses of one or more future periods - must be deferred and recognized as revenue in the same period / periods in which the related expenses are recognized.
  • That was incurred to fund the purchase of capital assets that will not be amortized - must be recognized as direct increases in net assets.
  • That was incurred for purposes other than those described above - must be recognized in revenue in the current period.

• Restricted contributions for expenses of the current period
  • Must be recognized as revenue in the current period.

• Unrestricted contributions
  • Must be recognized as revenue in the current period.

• Net investment income
  • Not externally restricted - must be recognized in the Statement of Operations.
  • Externally restricted net investment income that must be added to the principal amount of resources held for endowment - must be recognized as direct increases / decreases in net assets.
  • Other externally restricted net investment income - must be recognized in the Statement of Operations, in the appropriate deferred contribution balances or in net assets depending on the nature of the restrictions set out in paragraphs PS 4210.31-.48 described above.

PRESENTATION

• Deferred contributions
  • Deferred contribution balances must be presented in the Statement of Financial Position outside of net assets (i.e. as a liability).
**RESTRICTED FUND METHOD**

- The restricted fund method of accounting for contributions is a specialized type of fund accounting which involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable.
- All similar contributions recognized by an organization are to be treated consistently.

<table>
<thead>
<tr>
<th>GENERAL FUND</th>
<th>RESTRICTED FUND</th>
<th>ENDOWMENT FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td>- A self-balancing set of accounts which reports all unrestricted revenue and restricted contributions for which no corresponding restricted fund is presented.</td>
<td>- A self-balancing set of accounts the elements of which are restricted or relate to the use of restricted resources. Only restricted contributions, other than endowment contributions, and other externally restricted revenue would be reported as revenue in a restricted fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund.</td>
<td>- A self-balancing set of accounts which report the accumulation of endowment contributions. Only endowment contributions and investment income subject to restrictions stipulating that it be added to the principal amount of the endowment fund would be reported as revenue of the endowment fund. Allocations of resources to the endowment fund that result from the imposition of internal restrictions are recorded as interfund transfers.</td>
</tr>
<tr>
<td>- The fund balance represents net assets not subject to externally imposed restrictions.</td>
<td></td>
<td></td>
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</tbody>
</table>

**RECOGNITION**

- **Endowment contributions**
  - Must be recognized as revenue of the endowment fund in the current period.

- **Restricted contributions reported in restricted funds**
  - When a GNPO presents a corresponding restricted fund for the type of restricted contribution received, the restricted contribution must be recognized as revenue of that specific restricted fund in the current period.

- **Restricted contributions reported in the general fund**
  - When a GNPO does not present a corresponding restricted fund for the type of restricted contribution received, the restricted contribution must be recognized in the general fund in accordance with the deferral method depending on the nature of the restriction imposed (refer to paragraphs PS 4210.31, .33, .34, .38, .39, .40, .45).
  - If a GNPO receives a restricted contribution and the organization does not currently present a corresponding restricted fund the organization may decide to establish such a fund. This represents a change in accounting policy and would be accounted for in accordance with Section PS 2120, Accounting Changes, with restatement of prior periods. Any similar restricted contributions received in the future would be accounted for in this new fund.

- **Unrestricted contributions**
  - Must be recognized as revenue of the general fund in the current period.

- **Net investment income**
  - Not externally restricted - must be recognized in the Statement of Operations in the general fund.
  - Externally restricted net investment income that must be added to the principal amount of resources held for endowment - must be recognized in the Statement of Operations in the endowment fund.
  - Other externally restricted net investment income - must be recognized in the Statement of Operations, in the appropriate restricted fund, or if no such fund exists, in the general fund on the same basis as described in paragraph PS 4210.65.

**PRESENTATION**

- **Deferred contributions**
  - Deferred contribution balances must be presented in the Statement of Financial Position outside of net assets (i.e. as a liability) when restricted contributions are recognized in the general fund in accordance with paragraph PS 4210.65.
### CONTRIBUTIONS RECEIVABLE

#### RECOGNITION

- A contribution receivable must be recognized as an asset when it meets the following criteria:
  - The amount to be received can be reasonably estimated; and
  - Ultimate collection is reasonably assured.

#### PLEDGES AND BEQUESTS

- A promise to contribute cash / other assets to a GNPO is a pledge.
  - An uncollected pledge would only be recognized if the recognition criteria described above for contributions receivable are met.
  - Often, pledges are not recognized until the pledged assets are received, as whether or not a pledge will be collected depends on factors outside the GNPO’s control and thus in many cases the pledge does not meet the criteria for recognition as a contribution receivable.
- Bequests are often not recognized until received, as they are often subject to considerable uncertainty regarding both the timing and amount that will be received and thus do not meet the recognition criteria for contributions receivable.
Section PS 4230 - Capital Assets Held by Not-for-Profit Organizations

SCOPE

Applies to:
- Accounting for capital assets held by GNPOs.

Does not apply to:
- Items held as part of a collection (see Section PS 4240, Collections held by Not-for-Profit Organizations).

DEFINITIONS

CAPITAL ASSETS

- Comprising tangible properties such as land, building and equipment, and intangible properties are identifiable assets that meet all the following criteria:
  - Are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other capital assets;
  - Have been acquired, constructed or developed with the intention of being used on a continuing basis;
  - Are not intended for sale in the ordinary course of operations; and
  - Are not held as part of a collection (see Section PS 4240).

INTANGIBLE PROPERTIES

- Capital assets that lack physical substance, such as copyrights, patents and software.

RECOGNITION AND MEASUREMENT

COST

- A capital asset must be recorded on the Statement of Financial Position at cost.
- Cost includes:
  - The amount of consideration given up to acquire, construct, develop, or better a capital asset.
  - All costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use.
  - Any asset retirement cost.
- A capital asset purchased by a GNPO at a price substantially below its fair value is recognized at its fair value and the difference between the fair value recorded and the consideration paid is recognized as a contribution.
- When at the time of acquisition, a portion of an acquired capital asset is not intended for use, its cost plus any costs of disposal less any estimated proceeds, are added to the portion of the acquired capital asset that is intended for use.
- Cost of a capital asset constructed or developed over time includes:
  - Direct construction or development costs.
  - Overhead costs directly attributable to the construction or development activity.
  - The fair value, determined at the date of contribution, of contributed materials or labour.
  - For intangible property developed over time, the costs attributable to its development are capitalized when the expected future benefits are reasonably assured. When they are too uncertain to justify asset recognition the costs would be expensed.
Contributed capital asset
- Cost is the fair value at the date of contribution.
- However, in unusual circumstances where the fair value cannot be reasonably determined, both the capital asset and the related contribution are recorded at nominal value.

Betterment
- The cost incurred to enhance the service potential of a capital asset.
- A betterment is capitalized not expensed like repair costs.

Cost (Continued)

AMORTIZATION
- The cost of a capital asset with a limited life less any residual value is amortized over the asset’s useful life.
- Amortization must be recognized in a rational and systematic manner appropriate to the nature of the capital asset and its use by the organization.
- Amortization is recognized as an expense in the Statement of Operations.
- An organization must review the amortization method and the estimate of the useful life of a capital asset on a regular basis.

WRITE-DOWNS
- When a capital asset ceases to have any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized in the Statement of Operations as an expense.
- A write-down cannot be reversed.
- If there are any unamortized deferred contributions related to the capital asset written down, the contributions would be recognized as revenue, as long as all restrictions had been satisfied (see Section PS 4210, Contributions - Revenue Recognition1).

DISPOSAL
- When a capital asset is disposed of (i.e. by sale, destruction, loss, abandonment or expropriation), the difference between the following is recognized in the Statement of Operations:
  - The net proceeds on disposition; and
  - The net carrying amount.
- If there are any unamortized deferred contributions related to the capital asset that was disposed of, these contributions would be recognized as revenue in the period of the disposal, as long as all restrictions had been satisfied (see Section PS 4210, Contributions - Revenue Recognition1).

Capital Assets Held by Small Organizations
- If the average annual revenues recognized in the Statement of Operations for the current and prior period of a GNPO, including the average annual revenues of any entities it controls, are below $500,000, then the organization may choose to limit the requirements of Section PS 4230 to the requirements outlined in paragraph PS 4230.40 (discussed below). However, all GNPOs are encouraged to follow the requirements of Section PS 4230 even if they meet this limit, unless these requirements would be too difficult or costly.
- Once a GNPO’s revenues exceed the $500,000 limit discussed above, it must follow the requirements of Section PS 4230 and it must continue to follow the requirements of this Section even if its average revenues fall below $500,000 in subsequent years.
- According to paragraph PS 4230.40 GNPOs that meet the $500,000 limit discussed above must disclose the following information:
  - The policy the GNPO follows in accounting for capital assets;
  - Information about major categories of capital assets not recorded in the Statement of Financial Position, including a description of the assets; and
  - If the GNPO expends capital assets when they are acquired, the amount expensed in the current period.

1 See also our publication PSAB AT A GLANCE: Contributions.
2 The Accounting Standards Board and the Public Sector Accounting Board created a Joint Not-for-Profit Task Force which is reviewing not-for-profit organization standards with the aim of improving them to better meet user needs. A statement of principles is expected to be issued in the first half of 2013. One of the proposed changes is the removal of the size exemption for reporting capital assets.
Section PS 4240 - Collections Held by Not-for-Profit Organizations

SCOPE

Applies to:
- Disclosure of collections held by GNPOs.

Does not apply to:
- Works of art, historical treasures and similar items that are not part of a collection and are instead dealt with in Sections PS 4230, Capital Assets Held by Not-for-Profit Organizations.

COLLECTIONS

- Works of art, historical treasures or similar assets that are:
  - Held for public exhibition, education or research;
  - Protected, cared for and preserved; and
  - Subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.

NATURE OF COLLECTIONS

- They are made up of rare and unique items.
- They have cultural and historical significance.
- They are usually held by museums and galleries, but may be held by other organizations as well.

- Collections are not required to be capitalized by a GNPO since the costs would often exceed the benefit. Instead, disclosure is required. However, a GNPO is not prohibited from capitalizing its collections.

DISCLOSURE

- A GNPO must disclose the following in its financial statements about collections it holds:
  - A description of its collection;
  - The accounting policy followed with respect to the collection;
  - Details of any significant changes to the collection in the period;
  - The amount of expenditures on collection items in the period; and
  - Proceeds of any sales of collection items in the period and how those proceeds were used.

- Refer to paragraphs PS 4240.08-.11 for more guidance on disclosure.
Section PS 4250 - Reporting Controlled and Related Entities by Not-for-Profit Organizations

SCOPE
- This Section sets out standards for presentation and disclosure of controlled, significantly influenced and other related entities in a GNPO's financial statements.

CONTROL
- The continuing power to determine an entity’s strategic operating, investing and financing policies without the co-operation of others.
- Normally the holder of the right to appoint the majority of the voting members to an entity’s board of directors would have the power to determine an entity’s strategic policies and thus would be presumed to control the entity.
- If two organizations have the same board of directors it is presumed that one of the organizations controls the other.
- The presumption of control is only overcome if there is clear evidence control does not exist.
- Paragraphs .18-.24, of Section PS 1300, Government Reporting Entity¹, provides further guidance on determining whether an organization controls another organization.
- In the case where the right to appoint the majority of the voting members of an GNPO’s board of directors is absent, the reporting organization would need to consider other aspects of its relationship with the GNPO to determine whether other indicators of control are present, such as:
  - A significant economic interest in the other organization (see paragraphs PS 4250.10-.12);
  - Provisions in the other organization’s charter / bylaws that cannot be changed without the reporting organization’s consent and which limit the other organization to activities that provide future economic benefits to the reporting organization; or
  - The purpose of the other organization is integrated with the purpose of the reporting organization so that the two organizations have common or complementary objectives.
- In some cases a single indicator of control is sufficient for an organization to conclude that control exits, while in other cases more than one indicator may be required.

PRESENTATION AND DISCLOSURE OF CONTROLLED NOT-FOR-PROFIT ORGANIZATIONS
- Each controlled not-for-profit organization must be reported by the reporting organization in one of the following ways:
  - By consolidating the controlled organization in its financial statements;
  - By providing the disclosure in paragraph PS 4250.22; or
  - By providing the disclosure in paragraph PS 4250.26 when the controlled organization is one of a large number of individually immaterial organizations.
- Regardless of whether or not a controlled organization is consolidated the following must be disclosed:
  - The policy that is followed in reporting the controlled organization;
  - A description of the relationship with the controlled organization;
  - A clear and concise description of the controlled organization’s:
    - Purpose;
    - Intended community of service;
    - Status under income tax legislation;
    - Legal form; and
  - The nature and extent of any economic interest that the reporting organization has in the controlled organization.
- Controlled organizations that are similar may be grouped together for disclosure purposes.
- Any disclosure required by Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations, must also be provided.
- An organization can follow different policies for reporting different controlled organizations; however, similar types of controlled organizations would be reported in the same manner.

¹ See also our publication PSAB AT A GLANCE: Section PS 1300 - Government Reporting Entity.
A GNPO that prepares consolidated financial statements would follow the guidance in Sections PS 2500, Basic Principles of Consolidation and PS 2510, Additional Areas of Consolidation.

When consolidated financial statements are prepared:
- The elements of the controlled organization’s financial statement are combined with those of the reporting organization.
- Transactions between the organizations are eliminated as well as inter-organization balances.

When resources of controlled organizations are subject to restrictions on their use, information about major categories of restrictions on those resources must be presented in the consolidated financial statements in accordance with Section PS 4200, Financial Statement Presentation by Not-for-Profit Organizations.

When there are external restrictions that require resources to flow to the reporting organization and external restrictions that prohibit the transfer of resources to the reporting organization this information must be disclosed.

For consolidation purposes the accounting policies of each controlled organization must be adjusted to conform with the accounting policies of the reporting organization.

When resources of controlled organizations are subject to restrictions on their use, information about major categories of restrictions on those resources must be disclosed.

When there are external restrictions that require resources to flow to the reporting organization and external restrictions that prohibit the transfer of resources to the reporting organization this information must be disclosed.

A group of controlled organizations may be excluded from both consolidation and the disclosure requirements of paragraph PS 4250.22 by the reporting organization when:
- The group of organizations is made up of a large number of individually immaterial organizations; and
- The reasons why the controlled organizations have not been consolidated nor included in the disclosure requirements of paragraph PS 4250.22 are disclosed by the reporting organization.

Each controlled profit-oriented enterprise must be reported by the reporting organization in one of the following ways:
- By consolidating (in accordance with Sections PS 2500 and PS 2510) the controlled enterprise in its financial statements; or
- By accounting (in accordance with Section PS 3070, Investments in Government Business Enterprises) for its investment in the controlled enterprise using the modified equity method and providing the disclosure required in paragraph PS 4250.32.

Regardless of whether or not a controlled profit-oriented enterprise is consolidated or accounted for using the modified equity method the following must be disclosed:
- The policy that is followed in reporting the controlled enterprise; and
- A description of the relationship with the controlled enterprise.

This description would include information on how the controlled entity’s operations relate to / complement the reporting organization’s operations.

Any disclosure required by Section PS 4260 must also be provided.

2 See also our publication PSAB AT A GLANCE: Consolidation.
3 See also our publication PSAB AT A GLANCE: Section PS 3070 - Investments in Government Business Enterprises.
• The following must be disclosed for each controlled profit-oriented enterprise or group of similar controlled enterprises that are accounted for using the modified equity method:
  • Total assets, liabilities and shareholders’ equity at the reporting date; and
  • Revenues (including gains), expenses (including losses), net income and cash flows from operating, financing and investing activities reported in the period.
• When investments are accounted for using the modified equity method additional disclosures set out in Section PS 3070\(^2\) are required.
• When consolidated financial statements are presented the disclosure requirements set out in Sections PS 2500 and PS 2510\(^2\) are required.
• The accounting policies of the controlled organization must be adjusted to conform with the accounting policies of the reporting organization.
• Controlled enterprises that are similar may be grouped together for disclosure purposes.
• An organization may choose to consolidated some controlled enterprise and account for others using the modified equity method; however, similar types of controlled enterprises would be reported in the same manner.

**PRESENTATION AND DISCLOSURE OF JOINT VENTURES**

• Each interest in a joint venture must be reported by an organization in one of the following ways:
  • By accounting for its interest using the proportionate consolidation method in accordance with Section PS 3060, *Government Partnerships*\(^4\); or
  • By accounting for its interest using the modified equity method and disclosing the information required by paragraph PS 4250.38.

• Regardless of whether an interest in a joint venture is reported using proportionate consolidation or the modified equity method the following must be disclosed:
  • The policy that is followed in reporting the interest; and
  • A description of the relationship with the joint venture.

• The following must be disclosed for each interest in a joint venture, or group of similar interests that are accounted for using the modified equity method:
  • The reporting organization’s share of the joint venture’s total assets, liabilities and net assets / shareholders’ equity at the reporting date;
  • The reporting organization’s share of the joint venture’s revenues (including gains), expenses (including losses), and cash flows from operating, financing and investing activities reported in the period; and
  • Significant differences in accounting policies from those followed by the reporting organization.

• An organization may follow different policies for reporting different interests in joint ventures.

• Interest in joint ventures that are similar can be grouped together for disclosure purposes.

**SIGNIFICANT INFLUENCE**

• Over an entity is the ability to affect the strategic operating, investing and financing policies of the entity.
• Significant influence may occur in situations where it is concluded that control does not exist.
• The following factors may indicate the reporting organization has significant influence:
  • Representation on the board of directors;
  • Existence of economic interest;
  • Participation in the policy-making processes;
  • Material inter-entity transactions; or
  • Interchange of managerial personnel.
• When the reporting organization can temporarily affect the other entity’s strategic process this is not considered to be significant influence for the purposes of this Section.

\(^2\) See also our publication PSAB AT A GLANCE: *Consolidation*.
\(^3\) See also our publication PSAB AT A GLANCE: Section PS 3070 - *Investments in Government Business Enterprises*.
\(^4\) See also our publication PSAB AT A GLANCE: Section PS 3060 - *Government Partnerships*.
DISCLOSURE OF SIGNIFICANTLY INFLUENCED NOT-FOR-PROFIT ORGANIZATIONS

• The following must be disclosed when the reporting organization has significant influence in another not-for-profit organization:
  • A description of the relationship with the significantly influenced organization;
  • A clear and concise description of the significantly influenced organization’s:
    • Purpose;
    • Intended community of service;
    • Status under income tax legislation;
    • Legal form; and
  • The nature and extent of any economic interest the reporting interest has in the significantly influenced organization.

• Significantly influenced organizations that are similar may be grouped together for disclosure purposes.
• Disclosure of any economic interest the reporting organization has in the significantly influenced organization would be provided.
• Any disclosure required by Section PS 4260 must also be provided.

PRESENTATION OF SIGNIFICANTLY INFLUENCED PROFIT-ORIENTED ENTERPRISES

• When a reporting organization has significant influence over a profit-oriented enterprise, the investment must be accounted for using the modified equity method in accordance with Section PS 30604.
• Any disclosure required by Section PS 4260 must also be provided.

ECONOMIC INTEREST

• In another not-for-profit organization exists if:
  • The other organization holds resources that must be used to produce revenue / provide services for the reporting organization; or
  • The reporting organization is responsible for the liabilities of the other organization.
• Possible indicators of economic interest:
  • Funds are solicited by the other organization in the name of and with the expressed / implied approval of the reporting organization, and substantially all of those funds are intended by the contributor or are otherwise required to be transferred to the reporting organization or used at its discretion / direction;
  • Significant resources are transferred to the other organization by the reporting organization and the other organization’s resources are held for the benefit of the reporting organization;
  • Significant functions must be performed by the other organization on behalf of the reporting organization which are integral in order for the reporting organization to achieve its objectives; or
  • Significant liabilities of the other organization are guaranteed by the reporting organization.
• The degree of economic interest can vary in significance.

DISCLOSURE OF ECONOMIC INTEREST

• The nature and extent of an organization’s economic interest in another not-for-profit organization over which it does not have control or significant influence must be disclosed.

FINANCIAL INFORMATION AT DIFFERENT DATES

• In the case where the fiscal periods of the reporting organization and the other entity do not substantially coincide:
  • The financial information required to be disclosed in accordance with paragraphs PS 4250.22, .32, and .38 must be as at the other entity’s most recent reporting date; and
  • The following information must be disclosed:
    • The reporting period covered by the financial information; and
    • The details of any events / transactions in the intervening period that are significant to the reporting organization’s financial position or results of operations.
• When the reporting periods do not substantially coincide and consolidated financial statements are presented refer to Section PS 25002 for guidance.
• When the reporting periods of the reporting organization and the investee accounted for by the modified equity method are different refer to Section PS 30703 for guidance.

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2 See also our publication PSAB AT A GLANCE: Consolidation.
3 See also our publication PSAB AT A GLANCE: Section PS 3070 - Investments in Government Business Enterprises.
4 See also our publication PSAB AT A GLANCE: Section PS 3060 - Government Partnerships.
Leased Tangible Capital Assets & Sale-leaseback Transactions

**LEASE**

The conveyance, by a lessor to a lessee, of the right to use a tangible capital asset usually for a specified period of time in return for rent.

**LEASED TANGIBLE CAPITAL ASSET (LTCA)**

A non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by a government for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all the benefits and risks incident to ownership are, in substance, transferred to the government without necessarily transferring legal ownership.

**IDENTIFYING WHEN SUBSTANTIALLY ALL THE BENEFITS AND RISKS HAVE BEEN TRANSFERRED**

- Substantially all the benefits and risks of ownership have been transferred to the government when one or more of the following conditions are present:
  - There is reasonable assurance the government will obtain ownership of the leased property by the end of the lease term (ownership transfer provisions or bargain purchase option are included in the lease).
  - The duration of the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property.
  - The lessor is assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This occurs when the present value of the minimum lease payments, excluding any executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property.
  - Even if the factors listed above are not present, the lease may still need to be classified as a LTCA. To determine whether substantially all the benefits and risks of ownership have been transferred, the assessment of the factors above should be considered in conjunction with the guidance provided in paragraphs PSG-2.6-.10.

**ACCOUNTING FOR A LTCA**

- Recognition
  - Leased property that meets the definition of a LTCA should be accounted for as a tangible capital asset and a liability.
- Accounting for the asset
  - The asset should be accounted for in accordance with Section PS 3150, Tangible Capital Assets. ²
- Value at inception of the lease
  - The value of the LTCA and the amount of the lease liability, recorded at the beginning of the lease term, is the present value of the minimum lease payments, excluding executory costs.
  - The discount rate used by the government to determine the present value of the minimum lease payments should be the lower of:
    - The government’s rate for incremental borrowing; and
    - The interest rate implicit in the lease, if practicable to determine.
  - The maximum value recorded for the asset cannot exceed the leased property’s fair value.
- Amortizing the asset
  - The LTCA is amortized over the period of expected use of the asset on a basis consistent with the government’s amortization policy for other similar tangible capital assets.
  - Otherwise, the property is amortized over the lease term.
- Accounting for the liability
  - Lease payments are allocated between repayments of the liability, interest expense and any executory costs.
- Contingent rentals
  - Are expensed as incurred.

**PRESENTATION**

- The government reports its LTCAs in accordance with Section PS 1201, Financial Statement Presentation.³
- Liabilities related to LTCAs should be presented separate from other liabilities on the Statement of Financial Position.

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² See also our publication PSAB AT A GLANCE: Section PS 3150 - Tangible Capital Assets.
³ See also our publication PSAB AT A GLANCE: Section PS 1201 - Financial Statement Presentation.
SALE-LEASEBACK TRANSACTION

The sale of property by a government and the leasing of the same property, or a portion thereof, back to the government. The transaction may be effected through a series of concurrent sale transactions involving more than one external party or organization within the government reporting entity, with the end result being that the government retains the use of the property, or a portion thereof.

SALE-LEASEBACK INVOLVING A LEASED TANGIBLE CAPITAL ASSET (LTCA)

- In substance a sale-leaseback transaction that results in an LTCA is a financing arrangement as the government still retains substantially all the benefits and risks incidental to ownership of the property.

SALE AND 100% LEASEBACK AS AN LTCA

- The LTCA is recognized at its carrying amount prior to the transaction.
- Holding gains are not recognized in operating results.
  - Holding gain - occurs when the fair value of the property exceeds its carrying amount.
- The lease liability, after considering effects of any arrangements outlined in paragraphs PSG-5.25-.26, is recognized at the present value of the minimum lease payments.
- Any economic gains and losses, after considering effects of any arrangements outlined in paragraphs PSG-5.25-.26, are recognized immediately in operating results.
  - Economic gain - results from each of the following circumstances:
    - The proceeds received for the property are greater than its fair value.
    - The present value of the minimum lease payments is less than the fair value of the lease.
  - Economic loss - results from each of the following circumstances:
    - The proceeds received for the property are less than its fair value.
    - The present value of the minimum lease payments is greater than the fair value of the lease.

SALE AND LESS THAN 100% LEASEBACK AS AN LTCA

- The LTCA is recognized at its carrying amount in proportion to the amount of the property leased back.
- Holding gains associated with the portion of the LTCA leased back are not recognized in operating results.
- Holding gains associated with the portion of the property not leased back as an LTCA are recognized in operating results since there has effectively been a sale of that portion of the property.
- The lease liability, after considering effects of any arrangements outlined in paragraphs PSG-5.25-.26, is recognized at the present value of the minimum lease payments.
- Any economic gains and losses, after considering effects of any arrangements outlined in paragraphs PSG-5.25-.26 on the whole transaction, are recognized immediately in operating results.

PRESENTATION

- When the leased back property is an LTCA, the Statement of Cash Flow should present the transaction as a financing transaction.
SALE-LEASEBACK INVOLVING AN OPERATING LEASE

- This type of transaction is a sale of property as the government no longer retains substantially all the benefits and risks incidental to ownership of the property.
- Professional judgment needs to be exercised since a unique relationship can occur where an economic gain and an economic loss arise in the same transaction. This is referred to as interrelationship.
- Consideration must be given to the effects of any arrangements described in paragraphs PSG-5.25, .26 and .37.
- Holding gains are immediately recognized in the operating results.

SALE-LEASEBACK WITHOUT INTERRELATIONSHIP

- All economic gains and losses associated with proceeds received are recognized immediately in operating results since they have been realized.
- Any economic gains associated with the present value of the minimum lease payments that are less than the fair value of the lease are not immediately recognized in operating results. Instead, they are recognized over the life of the lease as they are realized.
- Any economic losses associated with the present value of the minimum lease payments that are greater than the fair value of the lease are recognized immediately in operating results. In substance, the economic loss constitutes a form of contribution payable to the lessor. As a result, a corresponding liability is recorded and it is settled in proportion to the minimum lease payments.

SALE-LEASEBACK WITH INTERRELATIONSHIP

- An interrelationship occurs within a transaction when an operating lease results in the creation of an economic gain and a compensatory economic loss.
- When this occurs, the amount of the interrelationship must be determined in order to enable the substance of the transaction to be reported.
- If the gain and loss are equal, the compensatory amount is the entire amount of the economic gain and economic loss. However, if the amounts of the gain and loss are different, the compensatory amount is embedded within the economic gain and economic loss. The amount of interrelationship is limited to the extent to which the economic gain and economic loss can be offset.
- A compensatory economic gain and economic loss are treated as discussed below. Once the interrelationship has been accounted for, any remaining actual economic gain and economic loss are treated in accordance with paragraphs PSG-5.40-.42. In addition, consideration must be given to the effects of any arrangements described in paragraphs PSG-5.25 and .26 when determining if an interrelationship exists.
- The amount of interrelationship is in substance a prepayment, when the proceeds received and the present value of the minimum lease payments are both less than their respective fair values. This prepayment is recognized in the financial statements as a prepaid expense (a non-financial asset). The prepayment is then settled in proportion to the minimum lease payments.
- The amount of interrelationship is in substance a loan payable, when the proceeds received and the present value of the minimum lease payments are both greater than their respective fair values. The amount of the interrelationship is recognized as a loan payable (a liability) in the financial statements. The loan liability is then settled in proportion to the minimum lease payments.
APPENDIX 1 - STANDARDS NOT INCLUDED

The following Public Sector Accounting Handbook Sections are not covered in this publication:

Section PS 1000, Financial Statement Concepts
Section PS 1100, Financial Statement Objectives
Section PS 1150, Generally Accepted Accounting Principles
Section PS 2100, Disclosure of Accounting Policies
Section PS 2130, Measurement Uncertainty
Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations
Section PS 4270, Disclosure of Allocated Expenses by Not-for-Profit Organizations
PSG-4, Funds and Reserves
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