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› [Directive on Accounting Standards: GC 3420 Inter-entity transactions](#)

Directive on Accounting Standards: GC 3420 Inter-entity transactions

Note to reader

This document is part of the Appendix A of the [Directive on Accounting Standards](#).

A. Primary PSAS reference

PS 3420 Inter-entity transactions

B. Effective date

April 1, 2017

C. Government of Canada Consolidated Financial Statements

1. This section is not applicable for the Government of Canada Consolidated Financial Statements as inter-entity transactions are eliminated upon consolidation.

D. Departmental Financial Statements

2. Departments, agencies and Crown corporations that comprise the Government of Canada's reporting entity transact with each other in the normal course of business. These inter-entity transactions can be in the form of either services provided by or to related parties or transfers of assets and liabilities from or to related parties. (PS 3420.01)

E. Transfers of assets and liabilities

3. In accordance with GC 3150.29 Tangible Capital Assets, transfers of capital assets between departments must be at the carrying amount (net book value) of the asset. In addition, in accordance with GC 3280 Asset Retirement Obligations, the balance of any related asset retirement obligations must be transferred to the receiving department. Tangible capital assets transferred between departments occur with no consideration as permitted under PS 3420.14b.
4. Interdepartmental transfers are related-party transactions therefore, the equity account of the departments should be credited or debited with the net book value of the capital asset in the Central Financial Management Reporting System (CFMRS).
5. For departmental financial statement purposes and in accordance with PS 3420.19, other transactions affecting equity in CFMRS are to be included in Government funding and transfers on the Statement of Operations and Departmental Net Financial Position, as listed in GC 4500.10f(iv).
6. In addition, notwithstanding the choice provided in PS 3420.17 and.18, departments are to measure all transfers of assets or

liabilities for nominal or no consideration at the carrying amount for both the provider and the recipient.

F. Cost allocation and recovery

7. Services provided on a recovery basis are defined as those that result in a charge against the authorities of the receiving department. A listing of all government service is provided in the Government of Canada Service Inventory. These services are to be recognized as revenues and expenses on a gross basis (PS 3420.10) and measured at the exchange amount (PS 3420.20).

G. Unallocated costs

8. In accordance with PS 3420.21, the Government has determined that recognition and disclosure of unallocated cost depends on the nature of the services provided.

- a. Services provided on a without-charge basis by one department to all other government departments (e.g. Receiver General functions) are considered unallocated costs. This also includes most of the mandatory services. Mandatory services are defined either in a policy or in legislation such as the audit services provided by the Office of the Auditor General. Central agency functions and mandatory services and programs are not normally provided on a recovery basis. No expense should be recorded by the receiving department and no revenue should be recorded by the providing department (PS 3420.11-13).

- b. Certain services are provided by one department to other government departments either on a recovery basis or on a without charge basis. Examples of services provided on both a without-charge basis and a recovery basis are legal services provided by the Department of Justice, and accommodation services provided by Public Services and Procurement Canada (PSPC). These services are accounted for as follows (PS 3420.11-13):
- i. Those provided on a recovery basis should be accounted for in the manner described in GC 3420.6.
 - ii. Those provided on a without charge basis should be recorded for departmental financial statement purposes only and are not to be recorded in the CFMRS trial balance. The receiving department should record an expense at the carrying amount (i.e. estimated cost) of the service provided, with a corresponding credit at the bottom of the Statement of Operations and Departmental Net Financial Position. The providing department should not record a revenue for these services.

It is the department's responsibility to review all material services provided by or to related parties to determine the appropriate accounting treatment and disclosure. At a minimum the services described in 8 b.ii. include:

- Accommodation services provided by PSPC;
- Health and dental coverage administered by the Treasury Board Secretariat;

- Legal services provided by the Department of Justice; and
 - Workers' compensation services provided by Employment and Social Development Canada (ESDC).
9. Departments that provide services on a without-charge basis, as described in GC 3420.8 b should determine the carrying amount (i.e. estimated cost) of the service and should communicate the information to the recipient departments in a timely manner, along with sufficient supporting details, for the purposes of preparing the annual financial statements.

H. Disclosure

10. Disclosure of inter-entity transactions is required as per PS 3420.23-.24. In addition, departmental financial statements should disclose amounts and a description of significant:
- Common services provided without charge by other government departments as defined in GC 3420.08 bii;
 - Common services provided without charge to other government departments as defined in GC 3420.08 bii;
 - A description of the nature of common services provided without charge by other government departments as defined in GC 3420.8 a;
 - Programs administered on behalf of other government departments;
 - Transfers of assets and liabilities from or to other government departments;
 - Aggregate amounts of transactions with other government departments recognized with charge, classified by financial statement category (e.g. expenses, revenues);

- Outstanding balances with other government departments, classified by financial statement category (e.g. accounts receivable, accounts payable); and
- The basis of measurement of the transactions above.

11. In addition, departments should determine if additional inter-entity disclosure is required as per PS 3420.23. Material transactions which arise outside of the services departments provide in accordance with their mandate and the Common Services Policy require particular attention on whether they require disclosure.

I. Other related references

- [PS 1000 Financial statement concepts](#) ¹
- [PS 1201 Financial statement presentation](#) ¹
- [PS 2200 Related party disclosures](#) ¹
- [GC 2200 Related Party Disclosures](#)
- [PS 3210 Assets](#) ¹
- [GC 4500 Departmental Financial Statements](#)

Footnotes

- ¹ Please note that a CPA Canada membership or an annual subscription is necessary to access this content.
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