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Directive on Accounting Standards: GC 4500 Departmental Financial Statements

Note to reader

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

A. Primary PSAS reference

PS 1201 Financial statement presentation

B. Effective date

April 1, 2017

C. General

1. The objective of this handbook section is to complement the Canadian Public Sector Accounting Handbook (PSAH) by providing specific policies related to the preparation of Departmental Financial Statements.

2. Departmental Financial Statements are published as part of the departmental results reporting process.
3. The departmental reporting entity comprises the activities for which the deputy head (DH), as the accounting officer, is expected to maintain accounting control. The departmental reporting entity is further described in GC 1300 Government Reporting Entity.
4. Departmental Financial Statements provide an accounting of the full nature and extent of the activities for which the DH is accountable and expected to maintain accounting control.
5. Departmental Financial Statements include:
 - a. A Statement of Financial Position;
 - b. A Statement of Operations and Departmental Net Financial Position;
 - c. A Statement of Change in Departmental Net Debt/Net Financial Asset;
 - d. A Statement of Cash Flows; and
 - e. Notes to the Financial Statements.
6. Pursuant to the Policy on Financial Management, sections 4.1.8 and 4.2.13, a Statement of Management Responsibility including Internal Control over Financial Reporting signed by the DH and the Chief Financial Officer (CFO) accompanies the Departmental Financial Statements.
7. Where Departmental Financial Statements are audited, the Auditor's Report accompanies the Departmental Financial Statements.

D. Presentation and disclosure

8. Departmental Financial Statements are presented in accordance with PS 1201 Financial Statement Presentation. Requirements related to financial statement presentation are further described in GC 1201

Financial Statements Presentation. The Illustrative Departmental Financial Statements present a model set of financial statements. This model must be used in order to ensure presentation and disclosure consistency across departments.

9. The PSAS requirements for the **Statement of Financial Position** are further interpreted as follows:
- a. A distinction is made between financial assets that are available to discharge the department's liabilities versus the ones that are not. Although the DH is expected to maintain accounting control of these financial assets, he or she has no authority regarding their disposition. As a result, financial assets that are not available to discharge the department's liabilities are considered to be held on behalf of the Government of Canada and are presented as a reduction to the department's gross financial assets. This distinction is further described in the Specific Items section below;
 - b. The "Amount due from the Consolidated Revenue Fund (CRF)" is presented as a financial asset because it represents a legitimate charge against authorities and it is available for use by the department in future periods without utilizing further authorities. Departments are permitted to net the amounts due from and the amounts due to the CRF and to present the balance as a financial asset or as a liability. The determination of the "Amount due from (to) the CRF" is further described in the Specific Items section below;
 - c. Where liabilities are greater than financial assets, the result is a "Net Debt" and liabilities are presented before financial assets. Where financial assets are greater than liabilities, the

result is a “Net Financial Asset” and financial assets are presented before liabilities; and

- d. The residual amount remaining when the department’s total liabilities are deducted from its total assets is reported as the “Departmental Net Financial Position.”

10. The PSAS requirements for the **Statement of Operations and Departmental Net Financial Position** are further interpreted as follows:

- a. Where the sum of all expenses is greater than the sum of all revenues, expenses are presented before revenues;
- b. Expenses are reported by core responsibility as determined by their results framework. Where a department has a very large number of core responsibilities, it may be appropriate to group certain core responsibilities together
- c. Expenses incurred as a direct result of changes to a department’s “Financial assets held on behalf of Government” are considered to be incurred on behalf of the Government of Canada and are presented as a reduction to the department’s gross expenses. This distinction is further described in the Specific Items section below;
- d. A distinction is made between revenues that are spendable versus the ones that are not. Although the DH is expected to maintain accounting control of non-spendable revenues, he or she has no authority regarding their disposition. As a result, non-spendable revenues are considered to be earned on behalf of the Government of Canada and are presented as a reduction to the department’s gross revenues. This distinction is further described in the Specific Items section below;

- e. The difference between the sum of all expenses and the sum of all revenues is reported as the “Net Cost (Net Results) of Operations Before Government Funding and Transfers”;
- f. Government funding and transfers is comprised of:
 - i. The “Net Cash Provided by the Government of Canada,” as reported in the Statement of Cash Flows;
 - ii. The change in the “Amount due from (to) the CRF”;
 - iii. The recognized amount of services provided without charge by other government entities; and
 - iv. The net effect of transfers of assets and liabilities from or to other government entities, resulting from government restructuring or other inter-entity transactions; and
- g. “Departmental Net Financial Position, at the end of the reporting period” is presented as the sum of the “Departmental Net Financial Position, at the beginning of the reporting period” and the “Net Cost (Net Results) of Operations After Government Funding and Transfers.”

11. The PSAS requirements for the **Statement of Cash Flows** are further interpreted as follows:

- a. “Net Cash Provided by the Government of Canada” represents net cash generated and used by the department during the reporting period; and
- b. Cash flows are classified by operating, capital investing and financing activities.

E. Specific items

12. Due to the unique nature of Departmental Financial Statements, additional guidance related to the following items is provided:

- a. Materiality and professional judgment;
- b. Central Financial Management and Reporting System (CFMRS) trial balance and Government-wide Chart of Accounts;
- c. Planned results;
- d. Amount due from (to) the CRF, and;
- e. Financial statement items held on behalf of government.

F. Materiality and professional judgment

13. For Departmental Financial Statement purposes, materiality should be assessed based on the department's materiality policy without consideration for the Public Accounts' materiality levels. Materiality is further described in GC 1010 Financial Statement Concepts.

G. Central Financial Management and Reporting System (CFMRS) trial balance and Government-wide Chart of Accounts

14. Departmental Financial Statements may include items that are not recorded in the CFMRS trial balance. These items, such as certain services provided without charge and amounts due from or to the CRF, are required for the presentation of Departmental Financial Statements but are not to be recorded in the CFMRS trial balance. Conversely, Departmental Financial Statements may exclude items that are recorded in the CFMRS trial balance. These items, such as

investments in and loans and advances to Crown corporations, as well as associated revenues or losses, may not be required for the presentation in the Departmental Financial Statements.

15. The Government-wide Chart of Accounts includes the coding elements necessary to prepare Departmental Financial Statements. For certain accounts, the classification of the account within the Government-wide Chart of Accounts may not correspond to the nature of the account at the departmental level. For example, although the GST/HST refundable advance account is shown under the Advance classification in the Government-wide Chart of Accounts, the nature of the account at the departmental level is an Accounts Receivable. For Departmental Financial Statement presentation purposes, departments should classify accounts based on their nature at the departmental level.

H. Planned results

16. Departmental Financial Statements should present a comparison of actual and planned results. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.
17. For the purpose of Departmental Financial Statements, the planned results should be based on the department's Departmental Plan (DP) for the corresponding fiscal year. Most of the financial information presented in the DP is reported on an expenditure basis of accounting. However, departments are required to report certain financial information using an accrual basis of accounting.
18. At a minimum, the planned results presented in Departmental Financial Statements should include the financial information reported in the DP using an accrual basis of accounting.

19. Departments may restate additional financial information originally reported in their DP using an accrual basis of accounting for internal management purposes or to comply with department-specific reporting requirements. This additional financial information can be presented in Departmental Financial Statements to supplement the financial information reported in the DP, provided a consistent methodology and assumptions were used.

I. Amount Due from (to) the CRF

20. The amount due from or to the CRF is the result of timing differences at year-end between the recognition of certain transactions and the disbursement or receipt of funds. The amount due from the CRF represents the net amount that the department is able to withdraw from the CRF in order to discharge its liabilities without generating any additional charges against its authorities in the year of the withdrawal.
21. The amount due from or to the CRF is determined for Departmental Financial Statement presentation purposes only and is not recorded in the CFMRS trial balance.
22. The amounts to be presented in the Departmental Financial Statements as due from the CRF at year-end include:
- a. Expenses incurred but not paid by the department that have been recorded as liabilities at year-end and included in the current year or prior year's authorities used balance. These amounts could include payables at year-end (PAYE) and should exclude GST/HST; and
 - b. Amounts received by the department prior to year-end that are available for respending in future years and are recorded as liabilities at year-end. These amounts could

include amounts in non-consolidated special purpose accounts.

23. The amount due from the CRF should be reduced by any amounts due to the CRF at year-end. Amounts due to the CRF at year-end could include:
- a. Amounts recognized as revenue that have been credited to authorities used, but were not collected and deposited to the CRF at year-end. These amounts could include receivables at year-end from other government departments (RAYE-OGD); and
 - b. Amounts withdrawn from the CRF that have not been recorded as authorities used at year-end. These amounts could include accountable advances.

J. Financial statement items held on behalf of Government

24. Financial statement items that do not meet the definition of a financial asset from a departmental perspective are presented as a reduction to the department's gross financial assets on the Statement of Financial Position. This allows for a fairer presentation of the net debt indicator from a departmental perspective. Financial statement items that do not meet the definition of a financial asset from a departmental perspective are classified as "Financial assets held on behalf of Government."
25. "Financial assets held on behalf of Government" are primarily generated by non-respendable revenues for which the receipt cannot be used by the department to discharge existing liabilities. Any related transactions arising from the recording of accounts

receivable generated from non-respendable revenues should be classified in the same manner as the related accounts receivable. For example, the recording of a write-off of an accounts receivable generated from non-respendable revenues and associated bad debt expense may result in expenses incurred on behalf of government.

26. "Financial assets held on behalf of Government" are also generated by the issuance of loans receivable for which the receipts cannot be used by the department. If the receipt of a loans receivable (principal or interest portion) cannot be used to discharge existing liabilities or issue new loans, then the loans receivable should be reported as a "Financial asset held on behalf of Government." It is possible for the principal portion and the interest portion of the loans receivable to be presented differently. Any related transactions arising from the issuance of loans receivable should be classified in the same manner as the related loans receivable. For example, the recording of the discount and the future amortization of the unamortized discount component may result in expenses incurred on behalf of government.

K. Other related references

GC 4500 Guideline: Illustrative Departmental Financial Statements

PS 1000 Financial statement concepts ¹

PS 1300 Government reporting entity ¹

PS 2130 Measurement uncertainty ¹

PS 2200 Related party disclosures ¹

GC 2200 Related party disclosures

PS 3250 Retirement benefits ¹

GC 3250/3255 Retirement and Post-Employment Benefits

PS 3260 Liability for contaminated sites ¹

[PS 3420 Inter-entity transactions](#)¹

[GC 3420 Inter-entity Transactions](#)

[PS 3430 Restructuring transactions](#)¹

[GC 3430 Restructuring transactions](#)

Footnotes

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