

# First-time adoption by government organizations: transitional provisions — Basis for Conclusions Section PS 2125

## FOREWORD

CICA Public Sector Accounting Handbook Revisions Release No. 38, issued in May 2013, contained an amendment to, FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125.

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale followed by PSAB when developing or removing a standard.

This document has been prepared by staff of PSAB. This document does not form part of the CICA Public Sector Accounting Handbook nor is it part of public sector generally accepted accounting principles. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guidance.

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- 1 FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125, was issued by the Public Sector Accounting Board (PSAB) in August 2010. It sets out a general requirement for retroactive application with restatement of prior periods' comparatives, and provides exemptions and exceptions in certain areas.
- 2 Section PS 2125 was not intended to apply to subsequently issued PSA standards. However, government organizations, including government not-for-profit organizations, transitioning to the PSA standards have encountered confusion regarding the interaction between the requirements in Section PS 2125 and the transitional provisions in new standards. Some took the view that Section PS 2125 overrode the transitional provisions in new standards.
- 3 PSAB proposed adding a transitional provision to state that Section PS 2125 does not apply to new standards issued after August 2010 (i.e., the release date of Section PS 2125) in an Exposure Draft, "First-time Adoption by Government Organizations: Transitional Provisions," issued in January 2013.
- 4 In March 2013, PSAB reviewed responses to the Exposure Draft and deliberated issues identified by respondents.
- 5 One respondent who disagreed with the amendment was concerned that automatic exemption from retroactive application is granted to all new standards without consideration of the implications. Another respondent who opposed the amendment acknowledged that the proposed approach is manageable in the near term but preferred the IFRS 1 *First-time Adoption of International Financial Reporting Standards* approach because an entity adopting a new accounting framework would only need to refer to the standard for all exemptions.
- 6 These concerns are relevant considerations if Section PS 2125 should remain in the PSA Handbook after government organizations complete their transition from the pre-changeover standards Part V of the CICA Handbook – Accounting. PSAB acknowledged that this is an issue it should consider further at a later date.
- 7 Given the strong support from respondents and that no new issues have been identified that PSAB had not previously considered, PSAB approved amendment to Section PS 2125 as proposed in the Exposure Draft.

