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HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE).

Basic principles of consolidation, Section PS 2500

This new Section outlines the basic steps of consolidation that would apply in the majority of government consolidations.

The new Recommendations are:

- A governmental unit is defined as a government organization that is not a government business enterprise. The government reporting entity, therefore, is made up of governmental units and government business enterprises.
- As the general rule, because most governmental units are created rather than acquired, governments are directed to the mechanics of the pooling of interests method of combination for preparing their consolidated financial statements, instead of the purchase method which is the general rule in the private sector.
- Guidance is provided regarding consolidation eliminations:
  - The general principle is that transactions internal to the government reporting entity cannot create revenue or otherwise improve the net financial position of the government.
  - The eliminations needed to present expenditures or expenses by function on the statement of results and disclose expenditures or expenses by object in the notes to the financial statements are described.
  - How the elimination of unrealized gains and losses related to transfers of tangible capital assets is incorporated into the reporting of tangible capital assets by senior governments as recommended in GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION — FEDERAL, PROVINCIAL AND TERRITORIAL GOVERNMENTS, Section PS 1500, is outlined.

The new Recommendations apply to federal, provincial, territorial and local governments.

Additional areas of consolidation, Section PS 2510

This Section outlines Recommendations that deal with rare issues in government consolidations: acquisitions and sales of governmental units, non-controlling interests, and governmental units that change in status to government business enterprises.

The Recommendations require that:

- When a non-controlling interest exists in a governmental unit, the government reporting entity should include that governmental unit in its consolidated financial statements on a proportionate consolidation basis.
- In the rare cases when a government does purchase a governmental unit, the mechanics of the purchase method of combination are to be used, except that "goodwill" is to be written off at acquisition.
- When all or part of a government's investment in a governmental unit is sold, the gain or loss on sale should 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 should be included in the determination of annual results in the period of sale.
- An organization that changes its status to a government business enterprise is "de-consolidated" and accounted for by the modified equity method from the date of change.
- The change in status of a governmental unit to that of a government business enterprise cannot create revenue or otherwise improve the net financial position of the government reporting entity.

The new Recommendations apply to federal, provincial, territorial and local governments.