

## SECTION PS 2700 segment disclosures

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### PURPOSE AND SCOPE

- .01 This Section establishes standards on how to define and disclose segments in a government's consolidated financial statements.
- .02 These standards apply to government financial statements. Other government organizations that apply the standards of the CPA Canada Public Sector Accounting Handbook (CPA Canada PSA Handbook) are encouraged to provide the disclosures established in this Section when their operations are diverse enough to warrant such disclosures.
- .03 Consolidated financial statements provide aggregated information about government and serve as a means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it. Generally, however, the activities of a government are so broad and encompass so wide a range of different activities that it is valuable to disclose selected disaggregated financial information about particular segments of a government in the consolidated financial statements.
- .04 The guidance in this Section is intended to start with the consolidated financial statements and separate out key financial information into segments in order to provide relevant information for accountability and decision-making purposes, while ensuring that the information is consistent with the consolidated financial statements.
- .05 The objectives of disclosing information about segments are to:
- (a) help users of the financial statements identify the resources allocated to support the major activities of the government;
  - (b) help users of the financial statements make more informed judgments about the government reporting entity and about its major activities;
  - (c) help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
  - (d) enhance the transparency of financial reporting; and
  - (e) help users of the financial statements better understand the performance of the segments and the government reporting entity.
- .06 Users of financial statements have a variety of needs that segment disclosures may be useful in addressing. For example, segment disclosures may assist users in assessing future net cash flows of the government.

### DEFINING SEGMENTS

- .07 For the purposes of this Section, 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 set out in paragraph PS 2700.05.

### IDENTIFYING SEGMENTS

- .08 Determining the activities that should be grouped as segments requires the application of professional judgment. As a starting point, the major classifications of activities used in creating, presenting or managing budget information may be appropriate for identifying segments. Identifying segments in this manner often reflects the existing accountability

framework for government and the way in which operations are managed. It also helps ensure that financial statement preparers are able to provide the required information in a cost-effective and timely manner.

- .09 In identifying segments, preparers of financial statements will consider the definition of a segment and other factors, including:
- (a) the objectives of disclosing financial information by segment;
  - (b) the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
  - (c) the qualitative characteristics of financial reporting as set out in Chapter 7 of the Conceptual Framework [Former paragraph PS 2700.09(c) retained in Archived Pronouncements.];
  - (d) the homogeneous nature of the activities, service delivery, or recipients of the services;
  - (e) whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
  - (f) whether discrete financial information is reported or available; and
  - (g) the nature of the relationship between the government and its organizations (within the reporting entity).
- .10 There are different bases of segmentation that may be considered appropriate. The government would choose the basis of segmentation that best addresses the factors in paragraph PS 2700.09. Some examples of how financial information may be aggregated and reported are:
- (a) By major functional classifications of activities undertaken by the government, such as health, education, defense, welfare, and major trading activities undertaken by GBEs, such as utilities and insurance entities.
  - (b) By service line segments that are distinguished by outputs or achieving particular operating objectives, such as police services and parks and recreation. Government departments and agencies are often managed along service lines because this reflects the way in which major outputs are identified, their achievements monitored and their resource needs identified and budgeted.
  - (c) By segments that reflect the different accountability and control relationships between the government and various organizations within the reporting entity, such as ministries, crown corporations, and the SUCH (schools, universities, colleges and hospitals) sector.
- .11 Governments sometimes provide supplementary disclosures at a broad level (for example, operating, capital and other funds) or a detailed level (unaudited), or provide audited financial statements of components of the government reporting entity. In many cases, this supplementary disclosure does not meet the requirements of this Section. In providing segment disclosures, what is important within the consolidated financial statements is that the definition of a segment is met, the objectives for segment disclosures are satisfied and an appropriate basis of segmentation is chosen.
- .12 In some cases, a government may report on the basis of more than one segment structure, for example, by service segments and functional classifications. If the achievement of a government's objectives is strongly affected both by the different products and services it provides and by its different functional classifications, reporting on the basis of both service segments and functional classifications may provide useful information.
- .13 Not every part of a government is necessarily a segment. For example, certain activities may best be considered part of general government operations rather than related to a specific segment.
- .14 There may be a practical limit to the number of segments that a government separately discloses, beyond which segment information may become overly detailed. Although no precise limit has been determined, as the number of segments identified increases, the government would consider whether a practical limit has been reached in terms of the value of the information being disclosed compared to the cost of compiling it.
- ATTRIBUTING ITEMS TO SEGMENTS**
- .15 For each reportable segment, some items are directly attributable to a segment while others will be allocated on a reasonable basis. Where an item can be allocated in whole or in part to a segment on a reasonable basis, this would be done. The government's financial reporting system would normally be the starting point for identifying items that can be directly attributed or reasonably allocated to segments.
- .16 In some cases, an item may have been allocated to segments for internal financial reporting purposes on a basis that is understood by government management but that is subjective or arbitrary. Such an allocation would not constitute a reasonable basis of allocation under this Section. Conversely, a government may choose not to allocate some items for internal financial reporting purposes even though a reasonable basis for doing so exists. For the purposes of segment disclosures, such items would be allocated.
- .17 A detailed calculation made in applying a particular accounting policy at the government-wide level would be allocated to segments if there is a reasonable basis for doing so. Employee entitlement calculations, for example, are often made for a government as a whole, but the government-wide figures may be allocated to segments based on salary and demographic data for the segments.
- .18 Some revenues and expenses may not be directly attributable or allocable on a reasonable basis to individual segments because they support a wide range of service delivery activities across a number of segments or relate to general

administration activities that are not identified as a separate segment. These unattributed or unallocated revenues and expenses would be reported as unallocated amounts in reconciling the segment disclosures to the government's consolidated financial statements.

- .19 Governments carry out their policies and deliver services through various organizations, including government business enterprises and business partnerships, accounted for on a modified equity basis. Where the modified equity-accounted income can be directly attributed or allocated to a segment in a faithfully representative way, this attribution or allocation would be done. Similarly, segment revenue and segment expense would include the segment's share of revenue and expense of a partnership that is accounted for by proportionate consolidation. [Former paragraph PS 2700.19, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .20 When a government accounts for certain government organizations on a modified equity basis in accordance with GOVERNMENT REPORTING ENTITY, paragraph PS 1300.47, if the modified equity-accounted income can be directly attributed or allocated to a segment in a faithfully representative way, this attribution or allocation would be done. [Former paragraph PS 2700.20, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .21 In accordance with BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, transactions and balances between controlled entities are eliminated when preparing consolidated financial statements. However, for segment disclosures, segment revenue and segment expense are determined before these eliminations. The only exception occurs when transactions and balances are between entities within a single segment. In this case, eliminating entries would be done before determining segment amounts.

#### **SEGMENT ACCOUNTING POLICIES**

- .22 *Segment information should be prepared in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government. [APRIL 2007]*
- .23 For purposes of their financial reporting, government organizations base their accounting policies on the standards of the CPA Canada Handbook – Accounting or the CPA Canada PSA Handbook as directed in the Introduction to the Public Sector Accounting Handbook. For purposes of segment reporting, all accounting policies, other than those for government business enterprises, would be conformed to the accounting policies adopted for preparing and presenting the consolidated financial statements of the government. These would be the standards of the CPA Canada PSA Handbook. [Former paragraph PS 2700.23, amended by the Conceptual Framework, retained in Archived Pronouncements.]

#### **CHANGES IN SEGMENTS**

- .24 *If there is a change in segments, prior period segment data presented for comparative purposes should be restated to reflect the newly reported segment(s) unless the necessary financial data are not reasonably determinable. [APRIL 2007]*
- .25 Changes in segments may occur as a result of new organizations being included in the government reporting entity and being allocated to segments. Changes may also occur if a new segment is identified or as a result of a change in the basis of segmentation. For example, a government may undertake significant new or additional activities, or increase the extent to which an activity previously operating as an internal support service provides services to external parties. When this occurs, prior period comparative data would be restated, if practicable, to reflect the current segment structure.

#### **DISCLOSURE**

- .26 *Government financial statements should separately disclose the following information, in notes or schedules, about each of a government's segments identified in accordance with paragraph PS 2700.07:*
  - (a) *the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;*
  - (b) *segment expense by major object or category;*
  - (c) *segment revenue by source and type;*
  - (d) *the aggregate of the income of government business enterprises and business partnerships accounted for under the modified equity method for each segment, if applicable; and*
  - (e) *a reconciliation between the information disclosed for segments and the consolidated information in the financial statements. [APRIL 2007 \*]*
- .27 In addition to these disclosures, governments are encouraged to provide other segment information where useful to users of the financial statements. Examples of other disclosures that may be desirable include separate disclosure of the total carrying amount of assets by segment, separate disclosure of the total carrying amount of liabilities by segment, separate disclosure of tangible capital assets by segment, separate disclosure of additions to tangible capital assets by segment and any other significant elements of the financial statements by segment.
- .28 In providing segment disclosures, it is important that users be able to reconcile the financial information provided to the government's consolidated financial statements. Various presentations of the reconciliation are possible but, regardless

of format, segment revenues would be reconciled to government revenues and segment expenses would be reconciled to government expenses.

- .29 While a single aggregate amount is disclosed pursuant to the requirements of paragraph PS 2700.26(d), each government business enterprise or business partnership is assessed individually to determine whether its operations are to be included within a segment or segments.

**Other disclosure matters**

- .30 *In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the government used to price those transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.* [APRIL 2007]
- .31 A change in the method that a government uses to price inter-segment transfers is not a change in accounting policy for which prior period segment data would be restated.
- .32 *Changes in accounting policies related specifically to segment reporting that have a material effect on segment information should be disclosed. Prior period segment information presented for comparative purposes should be restated unless the necessary financial data are not reasonably determinable. Such disclosure should include:*
- (a) *a description of the nature of the change;*
  - (b) *the reasons for the change;*
  - (c) *the fact that comparative information has been restated or that the necessary financial data are not reasonably determinable; and*
  - (d) *the financial effect of the change, if reasonably determinable.* [APRIL 2007]
- .33 Some changes in accounting policies relate specifically to segment reporting, for example, a change in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported, but will not change aggregated financial information reported for the government. To enable users to understand the changes and to assess trends, prior period segment information that is included in the financial statements for comparative purposes would be restated, when practicable, to reflect the new accounting policies.

**TRANSITIONAL PROVISIONS**

- .34 This Section applies to fiscal years beginning on or after April 1, 2007. Earlier adoption is encouraged.
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## Footnotes

\* Editorial change — March 2012.

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