SECTION PS 2500
basic principles of consolidation

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2022-2023 annual improvements.

…

DEFINITIONS

.04 The following definitions have been adopted for the purposes of this Section:

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(d) **Government financial statements** are summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity through the consolidation of its governmental units and inclusion of its investments in government business enterprises on a modified equity basis.

(e) A **governmental unit** is a government component, 1 government not-for-profit organization or other government organization. Government business enterprises are not governmental units. [Former paragraph PS 2500.04(e) related footnote, amended by the Conceptual Framework, retained in Archived Pronouncements.]

BASIC PRINCIPLES

.05 The purpose of government financial statements is to present the effects of transactions of the government reporting entity, as defined in GOVERNMENT REPORTING ENTITY, Section PS 1300, with organizations and individuals external to that entity, taking into consideration the accounting for government business enterprises described in INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070. 2 [Former paragraph PS 2500.05, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.06 *Government financial statements should consolidate governmental units* 3 *line-by-line on a uniform basis of accounting after eliminating inter-governmental unit transactions and balances.* [MAY 1999]

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

07 The basic steps of consolidation required by paragraph PS 2500.06 are as follows:

(a) The accounting policies of governmental units are conformed to those of the government.

(b) The balances of assets, liabilities and accumulated surplus / deficit of the governmental units, after being adjusted in accordance with (a), are added together and included on the consolidated statement of financial position for the government reporting entity. The assets and liabilities are accounted for in government financial statements at their carrying value in the records of the governmental units being consolidated, taking into account the adjustments required in (a).

(c) The revenues and expenses of the governmental units, after being adjusted in accordance with (a), are added together and the current and the most recent prior period aggregated amounts would be reported on the consolidated statement of operations and the consolidated statement of remeasurement gains and losses.

(d) The effects of inter-governmental unit transactions on assets, liabilities, accumulated surplus / deficit, revenues and expenses are eliminated, as described in paragraphs PS 2500.08-.18.

(e) Governmental units are included in government financial statements from the date of their creation or the date they became eligible for inclusion, and are removed from those financial statements from the date of their sale or other form of disposition or dissolution. If a governmental unit becomes eligible for inclusion as a result of a reinterpretation of existing circumstances, it would be included in the financial statements as if it had always been part of the government reporting entity. Such circumstances would, therefore, involve a restatement of comparative numbers. Accounting for the circumstances when a governmental unit changes in status to become a government business enterprise is dealt with in ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.42-.51.

.11 FINANCIAL STATEMENT PRESENTATION, Section PS 1201, requires that a government's expenses of the accounting period be reported on the statement of operations by function or major program. Reporting by function or major program is recommended because this information shows users the purposes for which goods and services have been acquired or consumed and helps them assess the allocation of resources to government functions or programs.

.14 FINANCIAL STATEMENT PRESENTATION, Section PS 1201, requires that a government's expenses be disclosed by object. The objective of disclosure of expenses by object is to provide information that is useful in evaluating the economic impact of government acquiring or consuming various types of resources. For the purposes of preparing such disclosure, expenses would reflect the resources acquired by the originating governmental unit, such as employees' salaries, goods and services and tangible capital assets.

.16A Operating gains and losses associated with inter-governmental unit sales or transfers of financial assets and financial liabilities in the fair value category require elimination. When the related instrument is still held within the consolidated entity, an adjustment is required to eliminate a gain or loss as it is unrealized. To accomplish this, the gain or loss is reclassified from the consolidated statement of operations and presented on the consolidated statement of remeasurement gains and losses.

.18 A government is required to report tangible capital assets in accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1201. Those standards require that the net book value of the government's tangible assets be reported as non-financial assets on the statement of financial position. The consumption of tangible capital assets must be recognized as an expense in the government's statement of operations. So, in a government's financial statements, adjustments would need to be made to ensure that the assets are presented at historical cost to the government reporting entity, as follows:

(a) The amount reported for tangible capital assets on the government's consolidated statement of financial position would exclude any unrealized inter-governmental unit gains and losses arising on the sale or transfer of tangible capital assets and the portion of accumulated amortization attributable to such inter-governmental unit gains and losses on tangible capital assets.

(b) The amortization of tangible capital assets recognized in the expenses reported on a government's consolidated statement of operations would be adjusted to eliminate the portion of the amortization charges attributable to unrealized inter-governmental unit gains and losses arising on the sale or transfer of tangible capital assets.

(c) In a government's disclosure of tangible capital assets in the notes or schedules to its financial statements, the cost and amortization amounts reported for tangible capital assets would exclude any unrealized inter-governmental unit gains and losses arising on the sale or transfer of tangible capital assets and any related effect of such gains and losses on amortization amounts.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING.

.04 The following definitions have been adopted for the purposes of this Section:

(c) A **government not-for-profit organization** is a government organization that has all of the following characteristics:

(ii) It has counterparts outside the public sector as defined in paragraph .02 of Introduction to Public Sector Accounting Standards.

(e) A governmental unit is a government component, 1 government not-for-profit organization or other government organization. Government business enterprises are not governmental units.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2018-2019 annual improvements.

.02 Government financial statements are the financial statements of the government reporting entity. The government reporting entity, defined in GOVERNMENT REPORTING ENTITY, paragraph PS 1300.07, comprises government organizations. Government organizations include governmental units and government business enterprises. Governmental units are consolidated in the financial statements and government business enterprises are included in the financial statements on a modified equity basis. Governmental units are included in a government's financial statements after their accounting policies have been conformed to those of the government. A similar adjustment is not required when including government business enterprises in the financial statements because under the modified equity method the accounting policies of a government business enterprise are not conformed to those of the government. The chart included as Appendix A to this Section outlines this government reporting entity framework in more detail.

.04 The following definitions have been adopted for the purposes of this Section:

(a) A **government business enterprise** is a government organization that has all of the following characteristics:

(i) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;

(ii) it has been delegated the financial and operational authority to carry on a business;

(iii) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and

(iv) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

These criteria are explained in GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.29-.31.

(b) A **government not-for-profit organization** is a government organization that meets the definition of a not-for-profit organization in the CPA Canada Handbook – Accounting, and which has counterparts outside the public sector. The definition of a not-for-profit organization is outlined in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, CPA CANADA HANDBOOK – ACCOUNTING paragraph 4400.02. The definition of the public sector is outlined in the Introduction to Public Sector Accounting Standards, paragraph .03.

(c) A **government organization** is any organization that is controlled by the government. GOVERNMENT REPORTING ENTITY, Section PS 1300, provides guidance on the interpretation and application of control.

(d) **Government financial statements** are summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity through the consolidation of all government organizations except government business enterprises, which are included on a modified equity basis.

(e) A **governmental unit** is a government component, government not-for-profit organization or other government organization.

(f) **Internal charges** are charges between governmental units, such as cost allocations or service charges for the use of assets or the provision of services.

.05 The purpose of government financial statements is to present the effects of transactions of the government reporting entity, as defined in GOVERNMENT REPORTING ENTITY, Section PS 1300, with organizations and individuals external to that entity, taking into consideration the accounting for government business enterprises described in INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070. 1

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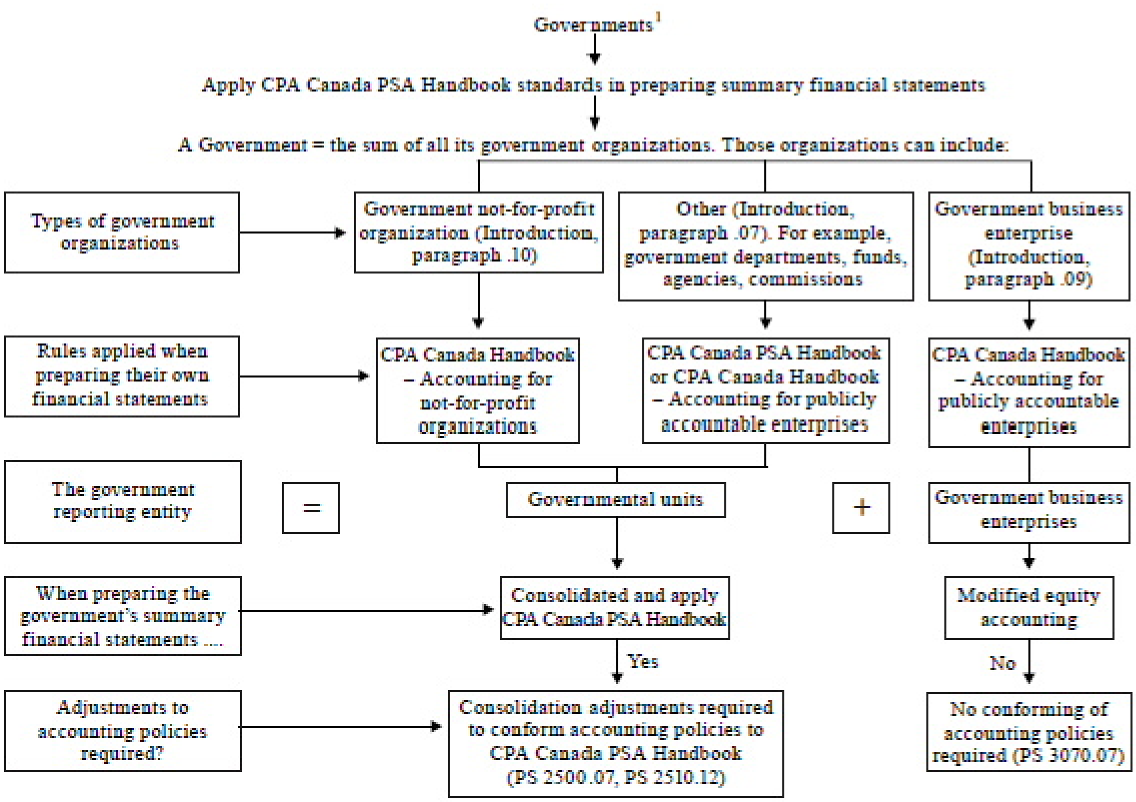
APPENDIX A

GOVERNMENT REPORTING ENTITY FRAMEWORK



[1] The term "government" means the government reporting entity as defined in GOVERNMENT REPORTING ENTITY, paragraph PS 1300.07.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended substantially as a consequence of approving FINANCIAL INSTRUMENTS, Section PS 3450.

.15 ♦ *Inter-governmental unit gains and losses arising on the sale or transfer of assets remaining within the government reporting entity should be eliminated.* [MAY 1999]

.16 Consistent with paragraph PS 2500.05, elimination of unrealized inter-governmental unit gains and losses on the sale or transfer of assets is necessary so that assets are presented at historical cost to the government reporting entity.

.17 The existence of unrealized inter-governmental unit losses may indicate a permanent decline in the value of the relevant assets. Such a decline in value would be recognized by writing down such assets. 4

Note: Refer also to Handbook Revisions Release no. 34 (June 2011) and no. 35 (March 2012) for a complete listing of amendments related to the issuance of FINANCIAL INSTRUMENTS, Section PS 3450.

Footnotes

1. A government component is defined in the Introduction to Public Sector Accounting Handbook.

2. Transactions and balances between governmental units and government business enterprises are not eliminated because government business enterprises are not consolidated. They are accounted for in government financial statements by the modified equity method. This method does not require the elimination of intra-government reporting entity transactions and balances (see INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070). All unrealized gains and losses arising from transactions between governmental units and government business enterprises that remain within the reporting entity are, however, required to be eliminated.

3. Governments normally create governmental units, often through a restructuring of existing government resources, rather than acquire them. Accounting for acquired governmental units is dealt with in ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.11-.32.

1. A government component is defined in the Introduction to Public Sector Accounting Standards.

1. Transactions and balances between governmental units and government business enterprises are not eliminated because government business enterprises are not consolidated, but are accounted for in government financial statements by the modified equity method, which does not require the elimination of inter-organizational transactions and balances (see INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070). All unrealized gains and losses arising on transactions between governmental units and government business enterprises that remain within the reporting entity are, however, required to be eliminated.

4. A government should account for such write-downs in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150.
