

SECTION PS 1150 **generally accepted accounting principles**

Basis for Conclusions

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PURPOSE AND SCOPE

- .01 This Section:
- (a) establishes standards for financial reporting in accordance with generally accepted accounting principles;
 - (b) describes what constitutes generally accepted accounting principles, and their sources; and
 - (c) provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles.
- .02 This Section applies to all public sector entities. It also applies to those organizations that consider the CPA Canada Public Sector Accounting Handbook (CPA Canada PSA Handbook) to be the most appropriate to their objectives and circumstances. An entity applying this Section is referred to as a "public sector reporting entity". [Former paragraph PS 1150.02, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

DEFINITIONS

- .03 The following definitions have been adopted for the purposes of this Section:
- (a) **Accounting policies** encompass the specific principles, and the methods used in their application, that are selected by a public sector reporting entity in preparing financial statements.
 - (b) **Entity-developed accounting policies** are those developed by an entity when no standard in the PSA Handbook specifically applies to a particular item, transaction or other event.
 - (c) **Generally accepted accounting principles (GAAP)** encompass broad principles and conventions of general application, as well as rules and procedures that determine accepted accounting practices at a particular time.
 - (d) **Primary sources of GAAP** are, in descending order of authority:
 - (i) standards in Sections PS 1202-PS 4270, including all application guidance Appendices, as they are identified as integral to the relevant pronouncement;
 - (ii) Public Sector Guidelines; and
 - (iii) illustrative material in Appendices of those pronouncements described in (i)-(ii) above.

[Former paragraph PS 1150.03(d)(i), amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.] [Former paragraph PS 1150.03, amended by the Conceptual Framework, retained in Archived Pronouncements.] [Former paragraph PS 1150.03, amended by GAAP designation of Appendices, retained in Archived Pronouncements.]

SOURCES OF GAAP

- .04 *A public sector reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity. [APRIL 2005]*
- .05 *When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source*

to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. Such entity-developed accounting policies should be consistent with:

- (a) *the primary sources of GAAP; and*
- (b) *the application of the concepts described in the Conceptual Framework.* [APRIL 2005 *]

[Former paragraph PS 1150.05, amended by the Conceptual Framework, retained in Archived Pronouncements.]

- .06 The primary sources of GAAP provide the financial statement accounting and reporting requirements, as well as explanations and guidance for most transactions and events encountered by a public sector reporting entity. Management is required to be knowledgeable about the primary sources of GAAP. As well, management is required to be aware of changes to the primary sources, because what constitutes GAAP at a particular time changes and adapts to reflect economic and social conditions.
- .07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.
- .08 A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:
- (a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.
 - (b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.
 - (c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.
 - (d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline.
- .09 The selection of appropriate accounting policies and disclosures requires the exercise of professional judgment. In exercising professional judgment, a public sector reporting entity takes into account the primary sources of GAAP, as well as the concepts described in paragraph PS 1150.05(b). The public sector reporting entity would not analogize to a primary source of GAAP if the source used states that it applies only to the particular circumstances described therein.
- .10 A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b).
- .11 In selecting appropriate accounting policies and disclosures, interpretations of a source do not constitute evidence that the criteria in paragraph PS 1150.05 have been met if it is likely that most parties, exercising professional judgment, would reject them as not resulting in a fair presentation in accordance with GAAP.
- .12 When the concepts described in paragraph PS 1150.05(b) conflict with a primary source of GAAP, the requirements of the primary source of GAAP prevail. The Board is guided by the concepts described in paragraph PS 1150.05(b) in the development of future pronouncements and in its review of existing pronouncements. Therefore, the number of cases of conflicts between the concepts described in paragraph PS 1150.05(b) and primary sources of GAAP will diminish over time.
- .13 A public sector reporting entity may be required to prepare financial statements in accordance with regulatory, legislative or contractual requirements. When these requirements are within the range of acceptable choices allowed by this Section, the basis of accounting can be described as being in accordance with GAAP. At times, conflict between GAAP and regulatory, legislative or contractual requirements may exist. In such cases, users of financial statements need to know that the statements are not prepared in accordance with GAAP. Therefore, if the basis of accounting used to prepare such financial statements conflicts with the requirements of this Section, that basis cannot be described as being in accordance with GAAP.
- Primary sources of GAAP**
- .14 In CPA Canada PSA Handbook Sections, italicized and non-italicized paragraphs have equal authority. Italicized paragraphs generally state the main principles, while non-italicized paragraphs generally explain the principles or their application to a particular situation. In addition, non-italicized paragraphs may include guidance for practices that are encouraged or desirable, but not required. To be in accordance with GAAP, a public sector reporting entity needs to comply with the non-italicized paragraphs as well as the principles. When there appear to be different ways of interpreting the non-italicized paragraphs, the public sector reporting entity selects the treatment that is most consistent with the principles.

- .15 Public Sector Guidelines set out the Board's interpretations of existing Handbook Sections, or its opinions on other issues of concern with respect to matters of financial accounting policies and disclosures for which the process of issuing exposure drafts and eventual Handbook Sections does not apply or cannot be undertaken on a timely basis.
- .16 Appendices are an integral part of the primary sources of GAAP.
- (a) Application guidance Appendices are integral to the related pronouncement and are considered a primary source of GAAP per paragraph PS 1150.03(d)(i). They explain how the requirements of a pronouncement would be applied to particular items, transactions or other events.
 - (b) Illustrative material included in Appendices that are not application guidance summarizes aspects of the underlying pronouncement or provides examples to illustrate the pronouncement's requirements. Illustrative material Appendices are considered a primary source of GAAP per paragraph PS 1150.03(d)(iii). They have less authority than the main body of the pronouncement or any related application guidance Appendix. Illustrative material includes an introductory statement specifying that it is illustrative only.
- [Former paragraph PS 1150.16, amended by GAAP designation of Appendices, retained in Archived Pronouncements.]
- .17 The Board issues Statements of Recommended Practice (SORPs) with respect to matters of reporting in the public sector. The objective of SORPs is to enhance decision making and accountability by improving the understandability of reports issued in the public sector. SORPs do not form part of generally accepted accounting principles.
- Other sources**
- .18 Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.
- .19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the International Public Sector Accounting Standards Board (IPSASB), Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), or US Governmental Accounting Standards Board (GASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. When a pronouncement from the IPSASB exists, it would be consulted first before pronouncements issued by other bodies authorized to issue accounting standards.[Former paragraph PS 1150.19 retained in Archived Pronouncements.]
- .20 When a public sector reporting entity chooses to consult a source described in paragraph PS 1150.19, it applies professional judgment and evaluates the source in the context of the relative manner in which the standard setter requires its pronouncements to be applied, as well as in the context of the related pronouncement. When an accounting standard setter does not have a conceptual framework that is similar to the concepts referred to in paragraph PS 1150.05(b), the public sector reporting entity needs to ensure that the selected source is consistent with those concepts.
- .21 In exercising professional judgment, a public sector reporting entity might wish to consult exposure drafts and other documents approved by the Board for public comment when no primary source of GAAP applies to the particular situation. The requirements of any existing accounting pronouncement that would be affected by the proposals in draft material remain in force until the effective date of the superseding material. Since the proposals in draft material are subject to revision, public sector reporting entities need to consider the consequences of any changes that may be made to the proposals as they are finalized. A document at a more advanced stage of the consultation process supersedes earlier versions.
- .22 CPA Canada research reports and studies may also be consulted to the extent that they comply with paragraph PS 1150.05. In addition, organizations other than the Board may issue guidance indicating how primary sources of GAAP may be applied in particular circumstances. Since the guidance in these sources has not received Board approval, the views of the Board may differ. Therefore, caution needs to be exercised in using these sources.
- .23 Accounting textbooks, journals, studies and articles that take the Canadian public sector environment into account are consulted in preference to those that do not.
- .24 Sometimes, a practice has been established that does not result from written material. The relevance of such a practice is demonstrated by its compliance with paragraph PS 1150.05 and not by its general use.
- EFFECTIVE DATE AND TRANSITIONAL PROVISIONS**
- .25 This Section applies to fiscal years beginning on or after April 1, 2005.
- [Former paragraph PS 1150.26, deleted by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .27 When consulting pronouncements issued by other bodies authorized to issue accounting standards as described in paragraph PS 1150.19, the amendment to consult IPSASB pronouncements as the first source is applicable for fiscal years beginning on or after April 1, 2021. The amendment would be applied only to new transactions or other events for which the entity has no existing accounting policy. The amendment does not require revision of existing accounting policies.
- .28 If no standard in the PSA Handbook specifically applies to a particular item, transaction or other event and an entity does not have an existing policy applicable to the transaction or other event, paragraph PS 1150.05 requires entities to

develop and adopt a new accounting policy for that transaction or other event. The entity-developed accounting policy is required to be consistent with the primary sources of GAAP and the Conceptual Framework. Even if this circumstance occurs prior to the entity adopting THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING IN THE PUBLIC SECTOR (the Conceptual Framework), the entity would reference the Conceptual Framework in developing that accounting policy.

- .29 The Conceptual Framework, issued in December 2022, added paragraphs PS 1150.03(b) and PS 1150.28 and amended paragraph PS 1150.05.
 - .30 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraph PS 1150.03(d)(i). The amendment is applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted.
 - .31 February 2025 changes to the GAAP designation of PSA Handbook Appendices amended paragraphs PS 1150.03(d)(i) to add the PS 4200 series of standards and application guidance Appendices. Paragraph PS 1150.16 was also amended to reflect that application guidance Appendices are not merely illustrative but are at the same level of GAAP in the GAAP hierarchy as the standards to which they are integral. These changes are effective for fiscal years beginning on or after April 1, 2026.
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Footnotes

* Editorial change — February 2007 and December 2022.

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