SECTION PS 2120
accounting changes

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the 2024-2025 Annual Improvements to Public Sector Accounting Standards.

CHANGE IN AN ACCOUNTING POLICY

.02 Accounting policies encompass the specific principles and the methods used in their application that are selected by a government in preparing financial statements. There is a general presumption that the accounting policies followed by a government are consistent within each accounting period and from one period to the next. However, a change in an accounting policy may be made: to conform to new Public Sector Accounting Standards; to adopt Public Sector Accounting Standards for the first time; or, if it is considered that the change would result in a more appropriate presentation of events or transactions in the financial statements of the government.

.09 Retroactive application with restatement of all prior periods that are presented provides consistency in accounting policies from one period to another. It assists in interpreting trends in a government's performance and other analytical data that are based on comparisons.

.12 A distinction can be made between the two primary reasons for a change in accounting policy: a government may change an accounting policy in order to comply with new Public Sector Accounting Standards, or to adopt Public Sector Accounting Standards for the first time; or, a change in accounting policy may be made when there is a choice from among two or more appropriate principles, or methods used in their application, and a government chooses to change the policy applied because it believes that the change would result in a more appropriate presentation of events or transactions in its financial statements.

.24 Some governments include in their financial statements, public accounts or other reports, historical summaries of their financial results for a series of accounting periods, some for as many as ten years. Such summaries are often used for trend analysis. In order for such summaries and the resulting analyses to provide meaningful information to readers, the accounting principles used would be comparable from year to year. Therefore, when a government reports an historical summary of its financial results, it is desirable practice that the amounts included in the summary from prior years be adjusted to reflect the accounting policies applied in calculating the results for the current year, regardless of whether the government has accounted for changes in accounting policy retroactively in its financial statements.

CHANGE IN AN ACCOUNTING ESTIMATE

.26 It is sometimes difficult to distinguish between a change in an accounting policy and a change in an accounting estimate. For example, a government may change from deferring and amortizing certain costs to expensing them as incurred because, as a result of new information, the future benefits of the costs have become doubtful. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates. In cases where it is difficult to draw a clear distinction, it is usual for such a change to be treated as a change in an estimate, not as a change in an accounting policy.

CORRECTION OF AN ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS

.31 An issue raised with a government by its auditor in one period but not corrected by the government until a subsequent period is not an error, for purposes of this Section; the issue would be accounted for in the period in which the correction is made.

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.

.06 Various treatments have been advocated to deal with a change in an accounting policy, including the following:

(a) Prospective application. The new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances.

(b) Retroactive application with no restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in the operating results or an adjustment of the opening balance of the accumulated surplus / deficit.

(c) Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus / deficit at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

.15 In some circumstances, while the total cumulative effect of a change in an accounting policy on prior periods can be determined, the effect with respect to specific prior periods may not be reasonably determinable. In such cases, the retroactive effect of the change in the accounting policy is accounted for as a cumulative adjustment of the opening balance of the accumulated surplus / deficit of the period in which the change is made.

.17 *When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy, except in those circumstances when the effect of the new accounting policy is not reasonably determinable for individual prior periods. In such circumstances, an adjustment should be made to the opening balance of the accumulated surplus / deficit of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the change on prior periods.* [SEPT. 1997]

.33 The financial statements, including the comparative information for prior periods, are presented as if the error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included in the restated results for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted retroactively. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated.

.34 *When there has been a correction in the current period of an error in prior period financial statements, the following information should be disclosed:*

(a) a description of the error;

(b) the effect of the correction of the error on the financial statements of the current and prior periods; and

(c) the fact that the financial statements of prior periods that are presented have been restated. [SEPT. 1997]

Depending on the nature of the error, it may be appropriate to disclose the effect of its correction on significant items such as the change in net debt.

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.

.05 The classification of an item in the financial statements of the current period may be different from that in the financial statements of prior periods as a result of a change in the allocation or grouping of items within or among relevant categories. Such a change in classification is a matter of presentation and is not, in itself, a change in an accounting policy. However, to enhance comparability with the financial statements of the current period, the item is reclassified in the financial statements of the prior periods to conform with the new basis.1

Footnotes

1. FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.24 and .30, provides reasons, such as consistency and comparability, to support the disclosure of reclassifications of financial statement items.
