the conceptual framework for financial reporting in the public sector

December 2022 *

Basis for Conclusions

FOR THOSE WHO CHOOSE NOT TO EARLY ADOPT THIS CONCEPTUAL FRAMEWORK, see FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, in the Archived Pronouncements.

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CHAPTER 1:
introduction to the conceptual framework

INTRODUCTION

1.01 This chapter defines a conceptual framework and outlines the need for and the objectives of the Conceptual Framework.

1.02 Concepts provide a meaningful foundation for formulating consistent financial reporting standards. Standards comprise the principles and other guidance applicable in specific situations or more generally in preparing financial reports.

1.03 Managing and allocating public money means that public sector entities are accountable to the public. Public accountability requires public sector entities to fairly present financial information to the public and its elected or appointed representatives. For financial statements to offer a fair presentation 1 of the economic circumstances, readers need to be confident that the financial statements follow objectively determined concepts and standards. [Former footnote 1 of paragraph 1.03 of the Conceptual Framework, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

1.04 The merits of proposed concepts and standards are assessed from a neutral position. They are not evaluated for their possible impact on behaviour (i.e., behaviour to promote or discourage certain activities). The primary justification for concepts and standards is based on improving accountability. In either formulating or implementing objective concepts and standards, the primary concern is the quality of the information that results, not how the requirements may affect a particular interest.

A CONCEPTUAL FRAMEWORK

1.05 A conceptual framework is a coherent set of interrelated concepts underlying accounting and financial reporting standards. The Conceptual Framework is not a standard. It prescribes the nature, function and limits of financial accounting and reporting. It is the foundation on which standards are developed and **professional judgment** is applied. 2

1.06 Nothing in the Conceptual Framework overrides any specific standard. PSAB applies the Conceptual Framework when developing standards.

1.07 With respect to the preparation of general purpose financial statements, standards are referred to as generally accepted accounting principles (GAAP). A conceptual framework provides the structure within which GAAP is developed.

1.08 GAAP evolves and is revised as required to reflect changing circumstances. Any inconsistency between the Conceptual Framework and an existing standard will be reviewed when re-examination of that standard is a priority for PSAB's technical agenda.

1.09 To meet the objective of financial reporting, PSAB may, in rare circumstances, specify requirements that depart from aspects of the Conceptual Framework. If the Board does so, it will fully explain the rationale for the departure in the basis for conclusions of that standard. 3

IMPORTANCE OF THE CONCEPTUAL FRAMEWORK

1.10 Adopting a conceptual framework represents a deliberate choice of a principles-based, standard-setting approach and requires the exercise of professional judgment. Professional judgment is exercised by an experienced and knowledgeable person, with due care, objectivity and integrity, within a framework of professional standards.

1.11 A conceptual framework is a set of core concepts on which to base sound, internally consistent standards. It helps stakeholders understand and apply standards and contribute to their development.

1.12 A conceptual framework serves the public interest by:

(a) providing structure and direction;

(b) setting out common concepts;

(c) providing precise terminology;

(d) guiding the exercise of professional judgment in making choices that are consistent with the Conceptual Framework; and

(e) imposing intellectual discipline on the reasoning process used to develop standards.

1.13 The Conceptual Framework will lead to increased public confidence in financial statements by supporting the development of a cohesive set of accounting standards for public sector entities in Canada. Like GAAP, a conceptual framework is evolutionary and over time may be revised to reflect changing circumstances.

APPLICABILITY OF THE CONCEPTUAL FRAMEWORK

1.14 The Conceptual Framework applies to public sector entities that prepare general purpose financial statements in accordance with the PSA Handbook. 4

OBJECTIVES OF THE CONCEPTUAL FRAMEWORK

1.15 The objectives of this Conceptual Framework are to assist:

(a) the standard setter to develop future accounting standards and guidance and review existing standards and guidance;

(b) stakeholders to evaluate proposed standards as part of the due process of standard setting;

(c) preparers of financial statements:

  (i) to apply accounting standards;

  (ii) to apply and interpret a standard when professional judgment is required; and

  (iii) to account for transactions and other events that have yet to form the subject of a standard; 5

(d) auditors to form opinions regarding compliance with accounting standards;

(e) users of financial statements to interpret the information in financial statements; and

(f) those who are interested in the work of the standard setter to learn more about its approach to setting accounting standards.

COMPONENTS OF THE CONCEPTUAL FRAMEWORK

1.16 The main components of this Conceptual Framework include:

(a) characteristics of public sector entities;

(b) objective of financial reporting;
(c) primary users of financial reporting;
(d) expectations of those users;
(e) role of financial statements;
(f) financial statement foundations and objectives;
(g) qualitative characteristics of information and related considerations;
(h) definitions of elements;
(i) general recognition and derecognition criteria;
(j) general measurement concepts; and
(k) general presentation concepts.

1.17 The Conceptual Framework first sets out concepts relevant to all public sector financial reporting by outlining the content in paragraphs 1.16(a)-(d) in Chapters 2-3). 6 It then establishes concepts and foundations necessary for financial statement reporting and the establishment of GAAP for financial statements of public sector entities by outlining the content in paragraphs 1.16(e)-(k) in Chapters 4-10). Nevertheless, while established for financial statements, the concepts and foundations in Chapters 4-10 may be a useful reference for preparing other financial reports.

TRANSITIONAL PROVISIONS

1.18 This Conceptual Framework applies to fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted. This Conceptual Framework is to be applied prospectively.

1.19 For standard setting by PSAB, this Conceptual Framework applies immediately, once approved.

CHAPTER 2: characteristics of public sector entities

INTRODUCTION

2.01 This chapter identifies the key characteristics of public sector entities 7 that have financial reporting implications. These characteristics fundamentally shape the objective of public sector financial reporting.

2.02 Identifying the characteristics of public sector entities, which include governments, government components, government organizations and partnerships, will result in concepts and standards that are appropriate to the public sector.

PURPOSE OF PUBLIC SECTOR ENTITIES

2.03 *Public sector entities exist to serve the public.*

2.04 A public sector entity serves the public in different ways; for example, by providing goods and/or services or by being stewards of public resources. A government serves the public through its components and organizations. This purpose is the lens through which key characteristics of public sector entities for financial reporting purposes are identified.

CHARACTERISTICS OF PUBLIC SECTOR ENTITIES

2.05 *The key characteristics of public sector entities are:*

(a) *inherent public accountability;*

(b) *unique governance structures;*

(c) *multiple public interest objectives;*

(d) *the nature and use of public resources;*

(e) *the financial significance of non-exchange transactions; and*

(f) *longevity of the public sector.* [APRIL 2026]

2.06 *Inherent public accountability is the overriding characteristic of public sector entities because they are:*

(a) *entrusted with public resources; and*

(b) *responsible for how public resources are used, managed and maintained.* [APRIL 2026]

2.07 Public sector entities vary. Governments, whether resulting from the Constitution, laws or the right to self-determination, as in the case of some Indigenous governments, are likely to have all of the characteristics. On the other hand, an individual government component or government organization may not share all of these characteristics. Government components and government organizations may have some unique characteristics that are different from those of the government.

2.08 A government's decisions will affect the objectives, structure, operations and financing of its components and organizations. Government components and government organizations are created through government legislation, bylaws or policy. A spectrum of organizational structures and accountability relationships exist within a government to fulfill its responsibility to serve the public. A government, for example, can serve the public through its components and organizations, with government organizations generally having greater autonomy than government components. The role of government components and government organizations is to implement government policy and fulfill government responsibilities.

2.09 Government components are integral to government and essentially form the core of government. Depending on their objective(s), they may have some or all the characteristics of government. Some may have only a few of the characteristics identified, functioning merely as an administrative unit of government. Others may have more of the characteristics because of their broad and multiple objectives, delegated rights and responsibilities for significant government programs.

2.10 Government organizations are separate entities. They are accountable to the public from which they receive resources. Government organizations have some of the key characteristics identified because of their responsibility to deliver key government programs.

DESCRIPTION OF THE CHARACTERISTICS

Inherent public accountability

2.11 *The public is entitled to and demands accountability from governments, their components and their organizations because of:*

(a) *their power to tax and/or otherwise obtain and use public resources;*

(b) *their ability to exercise powers and rights and fulfill responsibilities in the public interest;*

(c) *their capacity to incur debt and invest public money; and*

(d) *the commitments made for which reporting against the budget becomes an important mechanism for ensuring accountability.* [APRIL 2026]

2.12 Public accountability requires justifying the raising of public resources and how those resources are used, managed and maintained. It is based on the premise that citizens, as participants in a democratic form of governance, have the right to transparency and especially to receiving information that may lead to debates by the public and its elected or appointed representatives. Demonstrating public accountability is the overriding characteristic of public sector entities. Financial reporting plays a major role in fulfilling a public sector entity's duty to be publicly accountable.

2.13 Public accountability for a conferred responsibility normally involves:

(a) setting and communicating measurable goals;

(b) planning what needs to be done to achieve the goals;

(c) doing the work and monitoring the progress;

(d) reporting on the achievement of the goals; and

(e) evaluating results and providing feedback.

2.14 Public accountability is enhanced if goals and responsibilities are clearly defined. It is difficult to hold entities accountable for their performance if goals and responsibilities are vague or ambiguous.

2.15 The complexity of a government and the varied relationships it has with its components and organizations add to the need for public accountability.

2.16 Accountability is strengthened when financial information is presented in a transparent manner.

Ability to obtain and use public resources

2.17 The ability to obtain and use public resources is significant because public sector entities are entrusted with these public resources and, as a result, have a responsibility for their stewardship. As resource providers, the public demands public accountability regarding how public resources are used, managed and maintained.

2.18 Public sector entities can obtain public resources, either through the power to tax or through other means such as government transfers, revenue sharing agreements, donations, user fees, investment income, resource royalties. These public resources are often significant.

2.19 Taxation:

(a) involves the exercise of a power provided for in the Constitution or devolved or delegated through legislation or bylaws or provided for in accordance with Indigenous laws or rights;

(b) does not involve negotiation with, or agreement by, the individual taxpayer; and

(c) requires taxes to be paid that are not commensurate with the value of services received by each taxpayer.

2.20 Government transfers are transfers of resources for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase, sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

2.21 A donation is a public resource. Donors tend to be taxpayers who may benefit from charitable tax receipts that reduce taxes otherwise payable to governments.

Powers, rights and responsibilities

2.22 Governments may have also been granted the authority, among other things, to:

(a) make and enforce laws and regulations;

(b) set monetary policy;

(c) set fiscal policy;

(d) penalize and fine;

(e) issue licences to act, use or access;

(f) employ unique resources;

(g) charge royalties for the use or consumption of public resources;

(h) incur debt and invest public money;

(i) nationalize or expropriate resources; and

(j) amalgamate or restructure other public sector entities.

These powers and/or rights are provided for in the Constitution or devolved or delegated through legislation or bylaws or provided for in accordance with Indigenous laws or rights.

2.23 In return, governments may be responsible for:

(a) meeting constitutional, devolved, delegated or other duties;

(b) setting policies to manage the issues of the jurisdiction in an economic, efficient, effective, sustainable and transparent manner through the stewardship and application of the public resources entrusted to them;

(c) delivering services and reallocating resources to meet identified policy objectives;

(d) acting as a residual risk holder in the jurisdiction by assuming risks arising in extraordinary circumstances and risks to the public that are otherwise unassumed or uninsured, regardless of whether it has a contractual requirement to bear the risk;

(e) being accountable for the economic, efficient, effective, sustainable and transparent management, stewardship and use of the public resources entrusted to it;

(f) being good, ongoing and perpetual managers of the economy; and

(g) managing its operations efficiently.

2.24 Governments' powers and/or rights and responsibilities:

(a) may be exercised or accomplished through their components or organizations;

(b) give governments the ability to directly and indirectly affect the environment and the economy in which they operate; and

(c) affect the nature and extent of the public accountability they provide.

As a result, the need for transparency and accountability to the public and its elected or appointed representatives regarding the exercise of these powers and/or rights, and the accomplishment of these responsibilities, are critical to the integrity of the democratic process.

Capacity to incur debt and invest public money

2.25 Public sector entities may choose to incur debt for various reasons, such as financing infrastructure projects that will provide benefits to multiple generations, or for ongoing operations. The ability of their jurisdiction's tax base to bear debt and the financial community's assessment of that ability affect a government's debt capacity. Some governments, and some government organizations have legislated restrictions on the amount and type of debt that can be incurred. With respect to some government organizations, debt may be issued and other liabilities incurred centrally by government. Some indebtedness of public sector entities arises through contractual arrangements and other obligations. Public accountability regarding the debt burden is necessary as these debts will normally be paid with public resources. This may affect future generations and the sustainability of services and programs.

2.26 Public sector entities may choose to invest public money for various reasons. How a public sector entity chooses to invest public money is important accountability information as public sector entities are expected to be stewards of the public economic resources entrusted to them.

Importance of the budget

2.27 Important aspects of public accountability are provided by comparing actual with budgeted performance. In the financial statements, the complexity of that comparison will vary depending on the nature and extent of differences between the actuals and the budget. The basis of accounting used for the budget, the scope of activities and whether the budget will be prepared in accordance with GAAP are separate decisions. Accountability is better demonstrated in financial statements if the budget is prepared on a comparable basis with the financial statements.

2.28 A government's budget is a policy document that presents the costs of implementing policies, the mandated priorities and legislative requirements and the associated resource requirements. Budgets of individual government components and government organizations reflect a subset of the government's policies. Therefore, their budgets are also considered policy documents.

2.29 Most governments prepare and issue budgets as public documents. The budget, at the government level, is a management tool used to hold governments accountable for compliance with and performance against it. The budget reflects the financial considerations of the government's plan to implement its priorities, and otherwise deliver public services for the forthcoming period. It facilitates, and is a crucial component of, the public accountability cycle. It is a central part of the process that provides for legislative or council oversight of the financial dimensions of operations.

2.30 Most government organizations will have a budget. At a minimum, a government organization's budget provides the authority to spend for the upcoming period once it is approved by the appropriate authority(ies). The budget may also represent a strategic document. Events, emerging information, controlling-government or organizational decisions and/or changes in priorities may result in updated forecasts during the year.

2.31 The budgets of government components and government organizations are normally reflected in the government's overall budget, as these entities are an integral part of government. Many government components and government organizations are required or choose to make their own budget publicly available. Like governments, they are held accountable for compliance with and performance against those documents. The content, structure and presentation of budgets are often subject to legislative frameworks enacted by governments to respond to specific and unique public policy interests, and to meet transparency priorities of legislators, councillors and the general public.

2.32 Public consent for public sector activities is generally sought through preparing budgets for approval by elected or appointed representatives. Legislators and councillors publicly debate and approve a budget. The government is accountable for implementing budgets, directly through its components or indirectly through its organizations. Not all activities of an entity may be anticipated in a budget.

2.33 For all public sector entities, the details of the budget require legislative, council or board approval for an entity to have the authority to implement the budget.

Unique governance structures

2.34 Governance for public sector entities ultimately derives from the Constitution, legislation and the public through its elected officials or appointed representatives, and through Indigenous laws or rights.

2.35 For governments, the governance structure comprises elected officials or appointed representatives:

(a) For Indigenous governments, governance is provided by the elected or hereditary leadership, or some combination of both.

(b) For federal, provincial and territorial governments, governance is provided by the legislature.

(c) For local governments, governance is provided by the elected council or its equivalent.

This same structure generally forms the governance structure for government components.

2.36 For some government organizations, the board of directors or other administrative body grants the authority for the organization's financial and operating processes in accordance with the government's authority, mandate and overall policies. These governing bodies have a variety of structures and means of electing or appointing members. How an organization's governing body is structured, and how authority and responsibility have been delegated to it, affects the nature and extent of the accountabilities demanded of it.

2.37 Many governance structures in the public sector share the following distinct features:

(a) The structures are based on the Constitution or derived through the powers and rights set out in it, or are based on Indigenous laws or rights.

(b) The political dimension of governance involves elected, appointed or hereditary public officials managing public resources.

(c) The obligation to comply with the operating and financial frameworks is set out in legislation.

(d) Services are often provided in a monopolistic environment.

(e) There is a lack of or minimal equity ownership.

(f) There may be interrelationships between public sector entities from a funding and service-delivery perspective necessary to allow them to fulfill their obligation to serve the public.

Canada's constitutional structure

2.38 Canada has five types of government: Indigenous, federal, provincial, territorial and local.

2.39 Indigenous governance structures result from the Indigenous right to self-determination, Indigenous hereditary laws or the Constitution. The Constitution recognizes and affirms existing Indigenous and treaty rights of the First Nations, Inuit and Métis peoples of Canada. Indigenous government jurisdiction may be affirmed or recognized in Canada by federal and, where applicable, provincial and territorial governments through treaties, self-governing agreements, legislation and policy.

2.40 The federal and provincial governments are sovereign under the Constitution, which sets out their areas of responsibility.

2.41 The territories are creations of the Parliament of Canada, and exercise devolved, not sovereign, powers and rights.

2.42 Local governments fall under the jurisdiction of the provinces and territories, which are responsible for creating local governments and setting out their powers and responsibilities.

Political dimension of governance

2.43 In Canada, elections for governments are held at all levels: Indigenous, federal, provincial, territorial and local.

2.44 Canada and its provinces have a multi-party, democratic, Westminster parliamentary system of governance. It includes the potential for majority or minority Parliament, election calls in jurisdictions without fixed election dates and prorogation of Parliament or legislature.

2.45 The political dimension of governance in the public sector may also be a factor for government components and government organizations.

2.46 The political dimension of governance in the public sector reinforces the need for public accountability. The ultimate accountability to the public is accomplished through the electoral process.

Operating and financial frameworks set out in legislation

2.47 Operating and financial frameworks are established by legislation to help document the nature of an entity's authority and responsibility for serving and protecting the public interest.

2.48 The various operating and financial frameworks across the country have some similarities and differences. Such frameworks are established to reflect the policy choices and underlying structures of individual jurisdictions.

2.49 Public sector entities must operate within, and demonstrate their compliance with, their operating and financial frameworks. Transparency and public accountability for the promises and policies set out in, or flowing from, legislation is a fundamental part of public sector reporting.

2.50 Legislated frameworks may impose restrictions on a public sector entity's ability to raise revenue, incur expenses or commit to future actions, prohibit certain actions or require others. They may also establish accountability requirements. For example, appropriations set out in the legislative frameworks of certain governments give those governments the legal authority to spend.

Monopolistic environment

2.51 Public sector entities provide services that the private sector would generally not provide at the quantity, quality and price considered appropriate by public policy. More importantly, these services are in areas of responsibility established in the Constitution or devolved to other levels of government or delegated to government components or government organizations such that private sector entities may not provide them.

Lack of or minimal equity ownership

2.52 Public sector entities are normally created without equity ownership or with nominal equity ownership to consummate their incorporation. Some exceptions exist to maintain or enhance the ability of an entity to continue to meet its public interest objectives.

2.53 Most public sector entities are created:

(a) by an Indigenous government exercising its rights;

(b) through the Constitution (i.e., federal and provincial governments);

(c) by federal or provincial law (i.e., territorial and local governments);

(d) by a government (i.e., government components and organizations); or

(e) by a contractual arrangement between the government or a government organization and a party or parties outside of the reporting entity (i.e., partnership).

Possible interrelationships between public sector entities to fulfill obligation to serve the public

2.54 Governments and other public sector entities may have unique interrelationships with other public sector entities (including other governments) necessary to fulfill their obligation to serve the public. Governments and other public sector entities may need to work together and cooperate to serve the public. For example:

(a) some local government's service delivery intertwines with the provincial government (e.g., health and social services); and

(b) many Indigenous governments have financial and other arrangements with other levels of government for service delivery to their communities.

Some service-delivery requirements of one public sector entity may be mandated by another. There may be an interrelationship whereby the entity required to deliver the service relies on the entity mandating the service delivery for funding. Such interrelationships may have financial reporting implications.

Multiple public interest objectives

2.55 Public sector entities tend to have multiple objectives to meet the public expectations of how the public interest is served. Some government components or government organizations have a single objective, rather than multiple objectives. Nevertheless, that objective is consistent with the government's overarching objective of serving the public interest.

2.56 The multiple public interest objectives include:

(a) provision of public goods and services;

(b) resource reallocation;

(c) stewardship of public resources; and

(d) peace, order and good government.

2.57 Policy development and implementation are the tools through which these objectives are accomplished, and the public interest is served.

Provision of public goods and services

2.58 Public sector entities generally exist to provide public goods and services.

Resource reallocation

2.59 Resource reallocation is often characterized as a redistribution of wealth to jurisdictions, entities and individuals that require financial assistance or to distribute resources across the economy of a jurisdiction. Resource reallocation occurs in accordance with policy objectives, such as welfare, economic stimulus and equalization.

Stewardship of public resources

2.60 Public sector entities are expected to steward the public resources entrusted to them in an effective and appropriate manner ensuring the benefit of current and future generations.

Peace, order and good government

2.61 "Peace, order and good government" is a phrase included in the Constitution to capture any responsibilities not contemplated when the Constitution was written or revised. It is interpreted to include emergency powers. It is also a residuary power in the sense that any matter not constitutionally conferred on the provinces that is of national dimension or importance comes within the power of the Parliament of Canada.

Nature and use of public resources

2.62 Most of the resources held by public sector entities have been provided by, or received on behalf of the public.

2.63 Some public resources are held for service provision, such as infrastructure. Some are held perpetually for stewardship reasons, such as heritage and cultural resources. Some are held for future commercialization, or disposal.

2.64 Public resources are either financial or non-financial in nature. Public sector entities are stewards of significant non-financial resources. Some categories of public resources are:

(a) non-purchased resources, including Crown lands and related natural resources (recognizing that some entities might also hold purchased natural resources);

(b) heritage and cultural resources, including those in collections;

(c) tangible capital resources, including complex infrastructure systems;

(d) intangible resources (e.g., air and sea rights, the ability to regulate access to the electromagnetic spectrum, as well as purchased intangibles); and

(e) financial resources, including investments.

Financial significance of non-exchange transactions

2.65 Many transactions in the public sector are non-exchange transactions. Non-exchange transactions are transactions or other events where there is no direct transfer of goods or services to a payor. The proportion of exchange to non-exchange transactions of some government organizations may be higher than for governments.

2.66 Non-exchange transactions of public sector entities typically include:

(a) taxes;

(b) transfers;

(c) fines and penalties;

(d) fees that do not give rise to performance obligations;

(e) social benefits (e.g., welfare, Old Age Security); and

(f) donations and contributions (monetary and non-monetary).

2.67 Non-exchange transactions may be involuntary, such as taxes, fines, and penalties, or voluntary, such as donations.

2.68 Whenever an organization uses resources obtained from others to accomplish its objectives, accountability is expected regarding the use of those resources. When resources are raised through non-exchange transactions, especially transactions like taxation, an even higher degree of accountability is required to be demonstrated regarding the sourcing, extent and use of the resources and related compliance with the approved budget.

Longevity of the public sector

2.69 Many public sector programs are expected to be provided well into the future. As a result, many public sector entities are expected to be long-term entities.

2.70 Governments are long-term institutions. Under normal circumstances, they, and the related government components that function as a core government, are expected to operate in perpetuity. Similarly, many government organizations have existed for a long time and are expected to provide services far into the future. These too would be considered long-term organizations. However, government organizations may not have the same longevity as a government, as the controlling government may, for policy reasons, reallocate resources or reorganize the structure of government organizations to deliver programs.

2.71 Indigenous governance structures result from Indigenous right to self-determination, Indigenous hereditary laws or the Constitution and are an important example of the longevity of public sector entities.

2.72 The longevity of public sector entities affects the going concern concept that underpins the preparation of the financial statements. 8

CHAPTER 3:
financial reporting objective

INTRODUCTION

3.01 This chapter identifies the financial reporting objective. Identifying this reporting objective flows from the determination of the primary users and leads to the broad financial accountabilities expected to be demonstrated in financial reports.

3.02 Identifying a financial reporting objective is important because it identifies a goal and purpose for the reporting. Consequently, the qualitative characteristics of financial information and the concepts for recognition, measurement and presentation follow logically from that objective. The objective also provides guidelines for developing compatible financial reporting practices.

OVERRIDING OBJECTIVE OF FINANCIAL REPORTING

3.03 *The objective of financial reporting by public sector entities is to provide information for accountability purposes.* [APRIL 2026]

3.04 Chapter 2 identified inherent public accountability as the overriding characteristic of public sector entities. As a result, the overriding objective of public sector financial reporting is to demonstrate this public accountability.

3.05 Complete, transparent information provided for accountability purposes contributes to, and informs decision-making by various users.

3.06 Demonstrating public accountability can take various forms given the multiple objectives of public sector entities. Public accountability focuses broadly on:

(a) governance;

(b) performance;

(c) stewardship; and

(d) sustainability.

3.07 Public accountability requires considering to whom a public sector entity is accountable and for what.

ACCOUNTABLE TO WHOM?

3.08 *A public sector entity is accountable to the public and its elected or appointed representatives. The public and its elected or appointed representatives are the primary users of public sector financial reports. Public sector financial reports are prepared for the primary users.* [APRIL 2026]

3.09 Public sector financial reporting information is directed at meeting the needs of a wide range of users, with the public and its elected or appointed representatives being the primary users. 9

3.10 The term "public" is used in its usual sense, meaning the members of the community in general or all the people and organizations of the jurisdiction as a whole. Generally, the public primarily looks to a public sector entity for accountability from these perspectives — as resource providers, as service recipients or both.

3.11 "Elected or appointed representatives" refers to the elected or appointed body, such as the legislature or council, and includes legislators, councillors and, in the case of government organizations, the elected or appointed board members. In the case of Indigenous governments, "elected or appointed representatives" can also refer to hereditary representatives depending on the governance model in place. The public relies on its elected or appointed representatives to act on its behalf to influence the government, or in the case of board members, to influence the government organization. Generally, elected or appointed representatives look to a public sector entity for accountability from the perspective of policy implementation and results.

3.12 The public and its elected or appointed representatives hold the entity accountable for the management and use of public resources. These users, especially the public, may have differing degrees of knowledge about the economic environment in which public sector entities operate. Further, the public and its elected or appointed representatives may not have access to intermediaries, such as investment analysts, who can help interpret financial reports for them. Therefore, public sector financial reports must include financial information that is clear and understandable. However, financial reports can neither exclude nor simplify complex transactions so that their substance is misleading.

3.13 In developing financial reporting concepts and standards, standard setters presume that those who use the resulting information have a reasonable knowledge of economic activities and some understanding of financial reports. Standard setters also presume that financial report users will review and analyze the information with reasonable diligence. However, it is understood that users may need assistance to understand complex **economic resources, economic obligations**, transactions and other events presented in the financial reports. Nevertheless, financial reports would be made as understandable as possible for the users.

3.14 Financial report preparers are presumed to exercise due care in implementing financial reporting requirements. Exercising due care includes understanding the reporting requirements for an item, transaction or other event, applying those requirements properly and presenting the resulting information clearly and concisely.

3.15 The usefulness of financial information is maximized for accountability purposes when it is understandable to the public and its elected or appointed representatives.

3.16 Complete, transparent information provided for accountability purposes contributes to, and informs decision-making by all users. Information about the costs of past service delivery, the amount and sources of cost recovery, and the resources available to support future activities, are necessary to discharge accountability. This information, when combined with both internal and external contextual information, such as economic outlooks, stability measures, demographic and labour market analysis, productivity, outcome and societal well-being reports, aids in understanding effectiveness and will also be useful for decisions made by:

(a) citizens who vote in elections or advocate for policy and programs;

(b) elected officials or appointed representatives who set future policies or budget directives and define future programs;

(c) management who execute policy directives and steward public resources; and

(d) donors and other financial supporters who provide resources.

3.17 Rating agencies, statisticians, analysts, media, financial advisors, investors, creditors, public interest and lobby groups, and others may find the information provided by the financial reports useful. Some users have the ability to require financial reports tailored to meet their specific information needs (e.g., regulatory and oversight bodies, subcommittees of the legislature or other governing body and central agencies).

3.18 Reporting that has a public accountability objective is broader than reporting that focuses on the needs of specific users.

ACCOUNTABLE FOR WHAT?

Serving the public

3.19 Chapter 2, "Characteristics of Public Sector Entities," identifies the purpose of public sector entities: to serve the public. This purpose is a public sector entity's overriding objective. As such, identifying and measuring a public sector entity's capacity or ability to serve the public is important. This capacity or ability is referred to as "**service capacity**". Multiple, secondary objectives that describe how a public sector entity serves the public are also set out in Chapter 2.

3.20 An entity's service capacity is broadly affected by, but is not limited to:

(a) its powers to tax, legislate and regulate, license, fine, charge user fees and penalize or otherwise raise public resources;

(b) its ability to borrow (i.e., its debt capacity);

(c) the productivity, efficiency and effectiveness of its resources and programs;

(d) the skills and capabilities of its labour force;

(e) the innovativeness of its people and programs;

(f) its funding relationships and the stability of its funding arrangements;

(g) its economic resources net of its economic obligations; and

(h) certain laws, acts or statutes for example, the United Nations Declaration on the Rights of Indigenous Peoples Act.

3.21 An entity's service capacity may change as a result of many factors, such as:

(a) the activities or events during the accounting period;

(b) economic, environmental and social conditions;

(c) changes in funding relationships or arrangements;

(d) policy and asset management decisions of the entity;

(e) changes in leadership or governance; and

(f) changes in certain laws, acts or statutes.

3.22 Reporting on service capacity and service capacity maintenance responds to the stewardship and sustainability aspects of accountability, as an entity's service capacity will affect its ongoing ability to meet its objectives in the short and long term.

3.23 The notion of service capacity is not strictly financial, as evidenced by the list of factors affecting service capacity in paragraph 3.20. Nevertheless, the service capacity concept has implications for identifying the broad accountabilities of financial reporting, specifically **financial condition** and **financial performance**. Reporting on financial condition provides insight into an entity's service capacity. Reporting on financial performance provides insight into how an entity's decisions, transactions and other events of the period have affected its service capacity.

Broad accountabilities in financial reporting

3.24 *The broad financial accountabilities expected to be reported in the financial reports* 10 *of public sector entities are:*

(a) *the entity's financial condition*;

(b) *the entity's financial performance; and*

(c) *the extent to which the entity performed in accordance with its financial authorities and plan.* [APRIL 2026]

Financial condition

3.25 Financial condition describes an entity's financial health in the context of the overall economic and financial environment.

3.26 Reporting on the state of an entity's financial condition includes reporting information that considers the:

(a) aspects and indicators of its capacity to serve the public;

(b) sustainability of the entity and its policies and programs; and

(c) risks associated with the entity.

Financial performance

3.27 Financial performance is a measure that provides accountability for the results of an entity's policies, operations and activities for an identified period.

3.28 Reporting on an entity's financial performance includes reporting information that considers the effects the entity's activities, policies and programs in the reporting period had on:

(a) its capacity to serve the public;

(b) the effectiveness of its management of resources in serving the public; and

(c) the extent to which the entity performed in accordance with its budget.

Extent to which the entity performed in accordance with its financial authorities and plan

3.29 Reporting on the extent to which an entity has performed in accordance with its financial authorities and plan includes providing information about:

(a) the extent to which an entity has performed in accordance with the budget, including actual-to-budget variance explanations; and

(b) an entity's compliance with the other dimensions present in the operating and financial frameworks as set out in, or flowing from, the legislation or other governing authority, to which the entity is subject.

3.30 The extent to which an entity has performed in accordance with the budget provides a crucial but incomplete picture of its financial performance in the accounting period. The budget would also be considered when evaluating the entity's performance in relation to its management and stewardship of the public resources entrusted to it.

CONTEXT OF PUBLIC SECTOR ACCOUNTABILITY REPORTING

3.31 Public accountability requires transparency in the reporting of both financial and non-financial information. The complex nature of the public sector, its myriad objectives and the overriding objective of public accountability require multifaceted reporting. Best practice reporting by a public sector entity would comprise multi-dimensional accountability reporting that includes:

(a) financial statements;

(b) other information about an entity's financial condition, including future-oriented sustainability information;

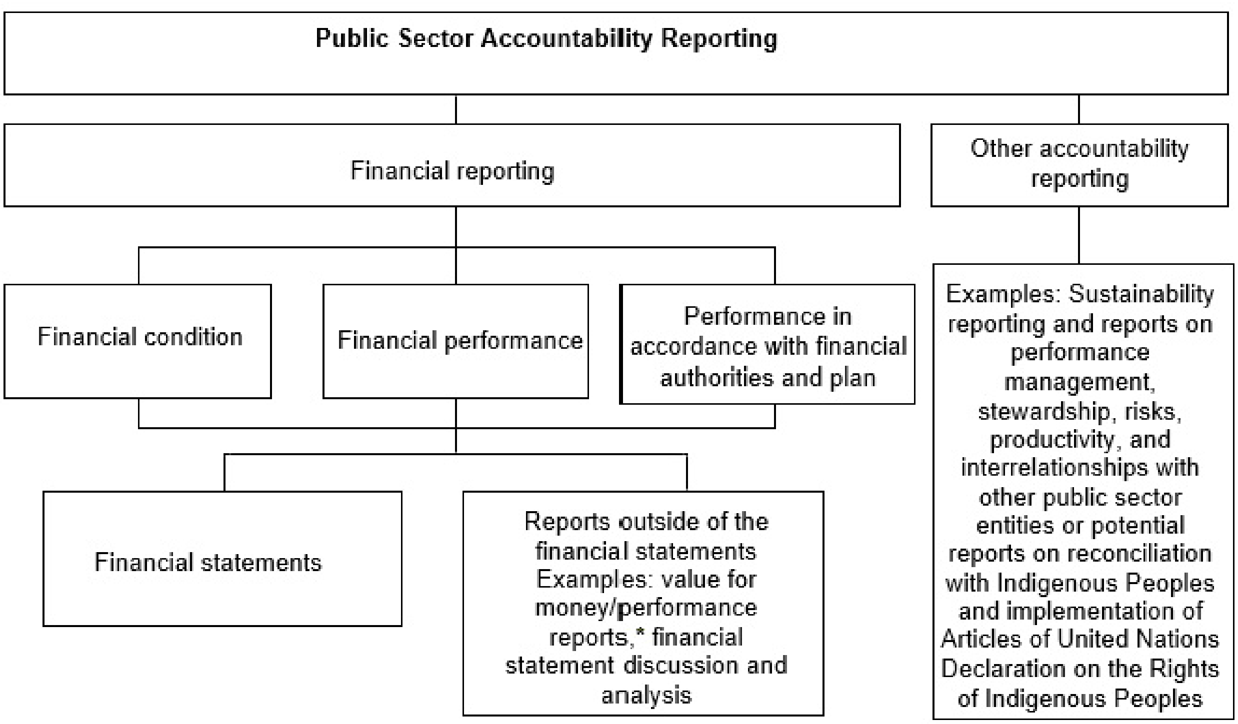
(c) supplementary financial performance information;

(d) non-financial performance information; and

(e) other accountability reporting.

3.32 The following diagram illustrates the multi-dimensional nature of public sector accountability reporting. As illustrated in Figure 3.1, the three broad accountabilities are demonstrated through various public sector accountability reports, including financial statements and reports outside the financial statements.

Figure 3.1



* Value-for-money/performance reports are produced for examining and reporting on matters related to any or all of the following: (a) The adequacy of management systems, controls and practices, including those intended to control and safeguard assets, to ensure due regard to economy, efficiency and effectiveness. (b) How resources have been

managed with due regard to economy and efficiency. (c) How programs, operations or activities of an entity have been effective.

CHAPTER 4: role of financial statements

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INTRODUCTION

4.01 The first three chapters of the Conceptual Framework set out concepts relating to all public sector financial reporting. The remainder of the Conceptual Framework focuses on financial statements alone, providing the concepts and foundations necessary for financial statement reporting and the establishment of GAAP for financial statements of public sector entities. Therefore, this chapter focuses on the financial statements' role in overall financial reporting. Nevertheless, the concepts and foundations in the chapters that follow may be a useful reference for preparing other financial and accountability reports.

4.02 The concepts in the chapters that follow build on each other and assume the concepts in previous chapters.

THE ROLE OF FINANCIAL STATEMENTS

4.03 *Financial statements are a fundamental component of the financial reporting of a public sector entity.* [APRIL 2026]

4.04 Public sector entities serve the public in many ways. However, financial statements cannot demonstrate or measure and report on all aspects of an entity's, particularly a government's, service capacity or changes in it. Only those aspects of service capacity that arise from past transactions and other events that create and/or change measurable economic resources and economic obligations can be reported in financial statements. Nevertheless, measuring and reporting the part of an entity's service capacity that can be reflected in financial statements, and changes in it, are significant to:

(a) demonstrating the entity's accountability for the resources and responsibilities entrusted to it for serving the public; and

(b) determining **financial position** and financial performance.

4.05 Chapter 3 states that reporting on:

(a) financial condition provides insight into an entity's service capacity; and

(b) financial performance provides insight into how an entity's decisions, transactions and other events of the period have affected its service capacity.

As with service capacity, however, only certain aspects of an entity's accountability for its financial condition and financial performance can be shown in financial statements. Furthermore, only certain aspects of the extent to which an entity performed in accordance with its financial authorities and its plan can be shown in financial statements. Financial condition, financial performance, and the extent to which an entity performed in accordance with its financial authorities and its plan are broad ideas, the complete reporting of which is beyond the scope of financial statements. However, financial statements can present:

(a) indicators of financial position, an aspect of financial condition;

(b) periodic financial results, an aspect of financial performance; and

(c) a comparison of the actual financial performance, as reported in financial statements, to that budgeted, an aspect of the extent to which an entity performed in accordance with its financial authorities and plan.

4.06 The extent to which the broad accountabilities can be demonstrated through reporting information in financial statements is explained in Chapter 6, "Financial Statement Objectives."

4.07 Reporting on the aspects of accountability (set out in paragraph 3.06) relating to:

(a) governance;

(b) non-financial performance; and

(c) certain aspects of sustainability; 11

is also beyond the scope of financial statements.

4.08 More specifically, accountability that can be provided in financial statements is limited in the following ways:

(a) Financial statements only portray economic resources, economic obligations, past transactions and other events that are measurable in monetary terms.

(b) Certain qualitative factors, such as productivity, the innovativeness of people and programs, the skills and capabilities of an entity's labour force, deferred maintenance or the quality of infrastructure, cannot be or are not reflected in financial statements.

(c) Financial statement preparation involves professional judgment, recognition restrictions, measurement issues and accounting policy and estimation choices. Financial statements will never precisely portray all of an entity's economic resources, economic obligations, transactions and other events in the accounting period. Comparing entities that use different accounting estimates, techniques or policies may be difficult.

(d) Financial statements may not fully capture important changes in the public sector environment, such as financial crises, natural disasters and health emergencies. Additional context may be required to explain these important changes and their implications for financial position and results (see Chapter 10, "Financial Statement Presentation Concepts").

4.09 Nevertheless, financial statements play a crucial role in a public sector entity's accountability cycle. They are a central feature of public sector financial reporting. They provide information useful for many purposes. Financial statements help fulfill an entity's duty to be publicly accountable. They serve as a means by which an entity accounts for its administration of public financial affairs and resources.

4.10 Financial statements prepared for accountability purposes help satisfy the needs of users who have limited authority, ability or resources to obtain information, and for whom the financial statements are an important source of information.

4.11 Audited financial statements are an important anchor to an entity's other financial and accountability reporting.

4.12 Because of these roles, the foundations and specific objectives of financial statements are significant components of the Conceptual Framework.

4.13 From a financial statement perspective, public accountability is facilitated through the various financial measures and indicators reported. Definitions of elements and concepts for recognition and measurement allow measures and indicators to be calculated consistently. Presentation concepts allow the measures and indicators to be highlighted and explained for financial statement users.

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INTRODUCTION

5.01 Financial statements report on and provide a measure of those aspects of an entity's service capacity that arise from past transactions and other events and that create and/or change measurable economic resources and economic obligations. For financial statements to provide a measure of these aspects of service capacity, this Conceptual Framework sets out the foundations for financial statement reporting in the public sector. These foundations pertain to:

(a) defining the entity being reported on;

(b) establishing the basis for associating economic resources, including interests in other entities, with a reporting entity (i.e., the concept of control);

(c) selecting the unit of measure; and

(d) choosing the basis of accounting.

5.02 These decisions allow:

(a) PSAB to establish consistent concepts and standards for financial statements; and

(b) financial statement preparers to make consistent accounting and financial reporting decisions that help meet the accountability objective of financial reporting.

IDENTIFIABLE REPORTING ENTITY

5.03 *Foundation 1: Financial statements should be prepared to report on the financial affairs, economic resources and economic obligations of an identifiable reporting entity, which includes its components and organizations.* [APRIL 2026]

5.04 A reporting entity is one that chooses, or is required, to prepare financial statements. It is not necessarily a legal entity. It can comprise one or more entities. A reporting entity's boundaries are objectively distinguishable from those of other entities or the environment in which it exists.

5.05 Governments carry out their policies and serve the public through a variety of public sector entities and through funding of other entities. Some public sector entities are components of government, such as departments and ministries, and are integral to the operations of government. Other public sector entities, such as government organizations, are separate entities. The whole of government is a public sector entity and is a separate reporting entity; it comprises all of a government's components and organizations.

5.06 Individual government components and government organizations:

(a) are public sector entities;

(b) may be separable reporting entities; and

(c) may themselves have one or more government components or government organizations.

5.07 Chapter 3 establishes accountability as the overall objective of public sector financial reporting. Accountability is only served when a complete picture of the reporting entity is provided. If parts of an entity are excluded from that picture, the accountability objective will not be met. As a result, a clear definition of a reporting entity is fundamental to accounting because it permits the association of economic resources, economic obligations and changes in them with an entity. The concept of control establishes the boundaries of the reporting entity.

CONTROL

5.08 *Foundation 2: Control is the basis for associating economic resources, including interests in other entities, with a reporting entity. Control, as a financial statement foundational concept, is having the existing ability to direct the use of economic resources with the expected economic benefits and/or risk of loss accruing to the reporting entity.* [APRIL 2026]

5.09 The concept of control is important in determining which economic resources are associated with an entity for the purposes of reporting the financial position and periodic financial performance of the reporting entity. It is fundamental to the definition of an asset set out in Chapter 8, "Elements of Financial Statements." Chapter 8 states that economic resources having specified characteristics, and which are controlled by the reporting entity, are called "assets". All other elements are defined in terms of assets. 13 So, the concept of control is important for associating economic resources, economic obligations and changes in them with a reporting entity.

5.10 A reporting entity's interests in other entities are a form of economic resource. So, the concept of control is equally important in determining which entities are associated with a reporting entity. Understanding why entities are associated with each other for reporting purposes and the nature of their relationship is important for demonstrating public accountability for the use of public resources.

5.11 Control establishes the boundaries of the reporting entity so that it is objectively distinguishable from other entities or the environment in which it exists. Entities controlled by a reporting entity form part of that reporting entity.

5.12 The concept of control is relevant to applying shared control and unilateral control principles in individual standards and for evaluating the circumstances, aspects and nuances of a relationship to determine if control exists.

5.13 A reporting entity can have various relationships with economic resources. These relationships exist along a continuum. At one end of the relationship continuum, control will clearly exist; at the other end, control will clearly not exist. In between, lie different relationships, and professional judgment is applied in conjunction with consideration of any relevant standards in determining whether control exists.

5.14 A reporting entity has existing control of an economic resource when it has the necessary authority in place to determine:

(a) how the economic resource is used; or

(b) the conduct of the other entity in which it has an interest,

and it has access to the related economic benefits and/or exposure to any related risks. It is because a reporting entity has this control that it is accountable for these economic resources and other entities.

5.15 At a reporting date, a reporting entity either had control at its last reporting date and retains control, or it may have acquired (or lost) control of economic resources during the reporting period. Whether control exists is a question of fact and requires the application of professional judgment.

5.16 Control can be acquired in many ways, such as through:

(a) legislation (including bylaws);

(b) a transaction involving a contract, negotiation, or other similar means;

(c) invoking a power or right; or

(d) a preponderance of factors and mechanisms in a reporting entity's relationship with a resource or other entity.

Guidance for determining whether, how and when control has been acquired is provided at the standards level. 14

5.17 Once the reporting entity acquires control, its choice not to exercise control does not negate its existence 15 or the reporting entity's accountability for using a controlled resource or the controlled entity's conduct.

Powers or rights of some public sector entities and the connection to the concept of control

5.18 Chapter 2, "Characteristics of Public Sector Entities," identifies the existence of powers, rights and responsibilities as a characteristic of some public sector entities. Given the unique characteristics of governments and their ability to affect and regulate aspects of the economy or society in general under the sovereign or equivalent powers or rights vested in them, 16 care must be taken when applying the concept of control.

5.19 A power or right in and of itself is not an economic resource. An entity having a power or right alone also does not constitute control. A past event or events to acquire control is required. Simply having a power or right does not provide an entity with access to future economic benefits and/or exposure to risk.

5.20 Invoking a power or right means action allowed or specified under the power or right is being taken to use the power or right, generally through legal means. Once a power or right is invoked, it may ultimately result in the flow of economic benefits to the entity that invoked it, or exposure of that entity to risk of loss. Control of an economic resource is not considered to be acquired unless the entity invoking the power or right gains coincident access to the future economic benefits and/or exposure to the risks associated with the resource.

5.21 Invoking a power or right to acquire control of an economic resource is different than exercising control previously acquired over an economic resource. A power or right to expropriate resources or nationalize private sector entities may exist for a government or other public sector entity. But until such power or right is invoked, the government or other public sector entity does not acquire control of such economic resources. Invoking the power or right is the past event through which:

(a) control of an economic resource is acquired, and coincidentally

(b) the entity invoking the power or right gains access to the future economic benefits and/or exposure to the risks associated with the economic resource.

5.22 A constitutional, legislative or other legal ability to acquire economic resources in the future does not convey existing control over them. For example:

(a) An entity may have a constitutional or legislative power or right to levy taxes, fees or consumption charges. Control over a resource would only exist if the entity invoked those powers or rights, such as by levying a tax on occurrence of a taxable event or by levying a fee on occurrence of usage or on an activity. Only then would the power or right give rise to an enforceable right to receive resources from others and/or exposure to any related risks.

(b) An existing power or right to nationalize or expropriate economic resources does not give an entity control of such economic resources until such power or right is invoked and the entity has access to the future economic benefits and/or exposure to the risks associated with the economic resources.

5.23 Once a reporting entity invokes the power or right and acquires control of another entity, the controlling entity can choose whether to exercise its day-to-day control over the other entity.

Influence is not control

5.24 A reporting entity's power or right to influence an entity does not, in and of itself, constitute control. Influence means affecting but not necessarily being able to control the use of something.

(a) A reporting entity's power or right to regulate economic resources or other entities, does not, in and of itself, constitute control.

(b) An entity receiving public funding is itself accountable to the public for use of the funding, but its financial dependence on public funding does not in and of itself constitute control by the public sector entity providing it with funding.

Restrictions and control

5.25 An entity may be subject to restrictions that limit its ability to do certain things. Restrictions on an entity's ability to act or do certain things imposed by another entity may be insufficient on their own to indicate a control relationship exists. Restrictions can, however, impact the relationship between entities and so must be considered in determining whether control exists.

5.26 There may be restrictions relating to a controlled economic resource. These restrictions may create obligations for the controlling reporting entity. Such obligations do not negate the existence of control over an economic resource.

Control can exist without ownership

5.27 Control can exist in the absence of ownership. For example, a reporting entity may not own an economic resource, but it can control the resource if it can direct the use of the resource and be exposed to the related benefits and/or risks. Similarly, there may be no evidence that a reporting entity owns another organization, but it can direct the use of that organization's economic resources and that organization's conduct and is exposed to the related benefits and/or risks through its existing ability to control the other organization.

UNIT OF MEASURE

5.28 *Foundation 3: Financial statements are prepared on the basis that an entity's financial position, and changes in it, are measured in financial terms. No adjustments are made based on the changes in the general purchasing power of the Canadian dollar.* [APRIL 2026]

5.29 Although measurements using money adjusted for changes in general purchasing power may be appropriate in jurisdictions where inflation or deflation is a significant issue, the relative level of inflation in Canada supports a pragmatic choice to use a unit of measure that does not take into account changes in purchasing power.

BASIS OF ACCOUNTING

5.30 *Foundation 4: Financial statements should recognize economic resources, economic obligations, transactions and other events in accordance with the accrual basis of accounting.* [APRIL 2026]

5.31 The basis of accounting determines when economic resources, economic obligations, transactions and other events are recognized. At either end of the accounting spectrum are two bases: accrual accounting and cash accounting, with variations in between. Which basis is used is important because each provides parameters for the consistent timing of and approach to recognition of economic resources, economic obligations, transactions and other events.

5.32 Accrual accounting recognizes the effect of transactions and other events in the period in which the transactions and other events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes:

(a) a resource until the future service potential or future net cash flows underlying the resource are partly or wholly used, lost or sold; and

(b) an obligation until the term(s) or condition(s) underlying it are partly or wholly satisfied.

5.33 Accrual accounting provides information about economic resources and economic obligations, as well as changes in them that cannot be obtained by accounting only for cash receipts and payments. Accrual accounting requires anticipating the future and making judgments about transactions and other events that are uncertain or unresolved at the end of the accounting period.

5.34 In contrast, cash accounting recognizes the financial effects of transactions and other events only when cash has been received or paid. Cash information on its own provides insufficient information for accountability purposes and any related decision making. Economic resources, economic obligations, transactions and other events recognized on a cash basis would be inadequate for assessing or identifying all of the economic resources that an entity controls, the obligations it must meet and the increases or decreases in those resources and obligations. The public expects public sector entities to be accountable for the effects of their decisions on all their economic resources and economic obligations.

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INTRODUCTION

6.01 Financial statement objectives need to reflect and be consistent with the overall objective of financial accountability and the three broad financial reporting accountabilities identified in Chapter 3, being the reporting of the:

(a) financial condition of the entity;

(b) financial performance of the entity; and

(c) extent to which the entity performed in accordance with its financial authorities and plan. The plan is often in the form of a budget. 18

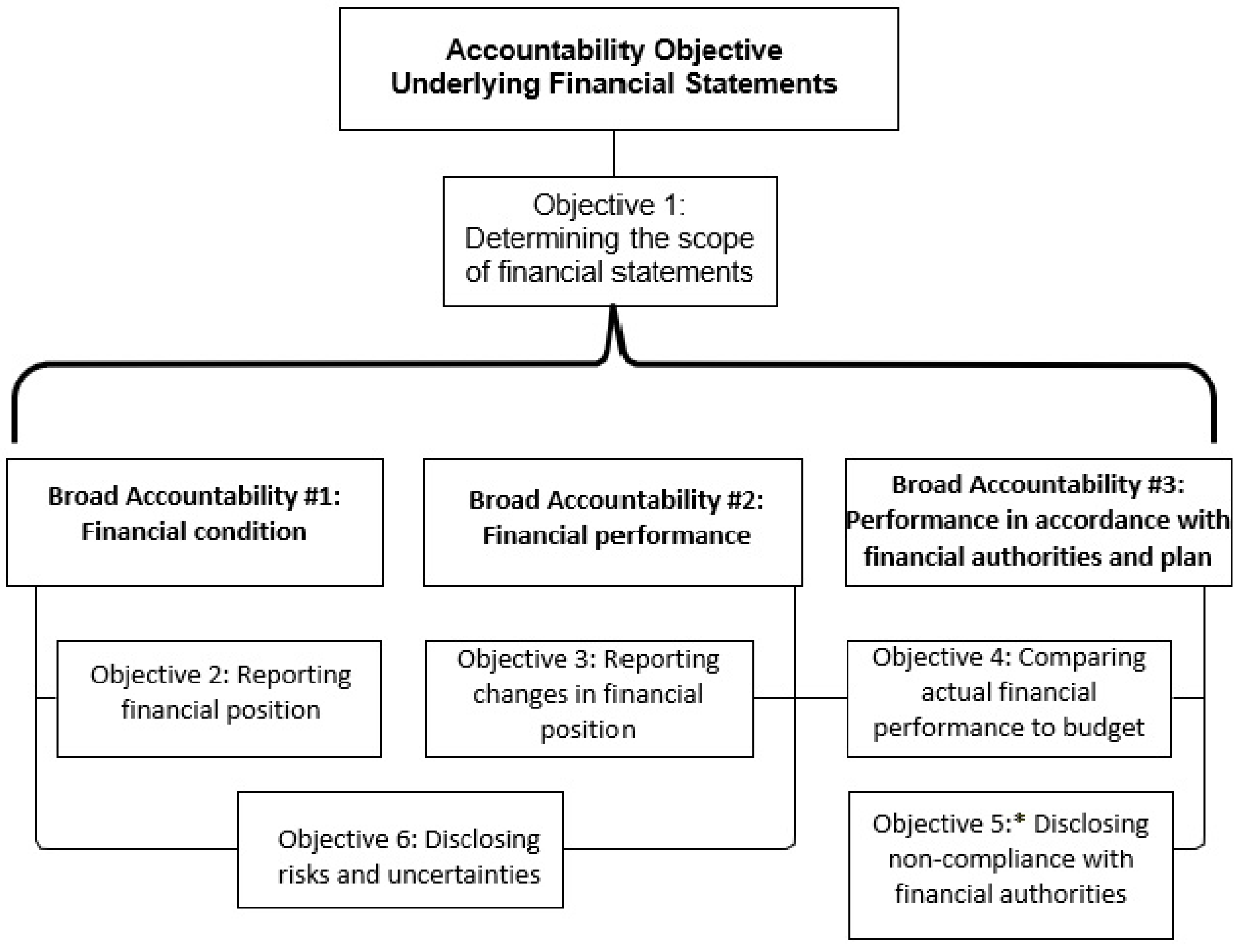
6.02 Financial statement objectives establish the information to be included in financial statements given the characteristics of public sector entities and limitations on the nature and extent of information financial statements can present. These objectives pertain to:

(a) determining the scope of financial statements (Objective 1);

(b) reporting financial position (Objective 2);
(c) reporting changes in financial position (Objective 3);
(d) comparing the actual financial performance to that projected in the budget (Objective 4);
(e) disclosing non-compliance with financial authorities (Objective 5); and
(f) disclosing risks and uncertainties (Objective 6).

6.03 Figure 6.1 shows the relationships among the overall financial reporting objective (providing information for accountability purposes), the three broad financial reporting accountabilities and how financial statements help to meet these through the individual financial statement objectives. 19

Figure 6.1



* Non-compliance with financial authorities may also have implications for financial condition and financial performance.

6.04 Objective 1 deals with determining the scope of financial statements. It underlies all the other financial statement objectives because it establishes the reporting entity's boundaries in terms of the entities that are to be included in its financial statements. To meet the accountability objective, the financial statements of the entity must include all of its components and controlled organizations.

6.05 Reporting financial position (Objective 2) can demonstrate only certain aspects of an entity's financial condition. Financial position provides information that is useful for evaluating the stewardship of public resources and decisions related to how the entity is financing its activities. It also provides information about the entity's flexibility and financial sustainability.

6.06 Reporting changes in financial position (Objective 3) can demonstrate only certain aspects of an entity's financial performance. Changes in financial position include the sources of resources during the period, the cost of providing services, cash flow and other aspects of financial performance. This information can be used as the basis for assessing vulnerability and determining the impact of raising resources and the cost of providing services. This information also aids in making assessments of the financial sustainability of the future provision of public services.

6.07 Comparing actual financial performance to the budget (Objective 4) and disclosing information about non-compliance with financial authorities (Objective 5) demonstrates how the entity performed in accordance with its budget and financial authorities. Comparing actual financial results to the budget also provides information about the entity's financial performance, which is useful in assessing accountability. Financial authorities are financial control mechanisms relating to the expected raising, use and management of public resources. Non-compliance with financial authorities may also have implications for financial condition and financial performance. Demonstrating compliance with financial authorities also provides important accountability to users.

6.08 Disclosing risks and uncertainties (Objective 6) provides information useful for:

(a) evaluating the management of risks and uncertainties; and

(b) preparing assessments about the potential effects of risks and uncertainties on the entity's financial position, changes in financial position and financial sustainability.

DETERMINING THE SCOPE OF FINANCIAL STATEMENTS

6.09 *Objective 1: Financial statements should account for the full nature and extent of the financial affairs of an entity, the economic resources it controls and the economic obligations it must settle, including those of its components and controlled organizations.* [APRIL 2026]

6.10 To help users understand and assess the financial affairs and economic resources entrusted to an entity, financial statements would account for the full nature and extent of the financial affairs, economic resources and economic obligations for which it is accountable including those of its components and controlled organizations. This objective combines the financial statement foundations of control and an identifiable reporting entity set out in Chapter 5 to establish the boundaries of an economic reporting entity for financial statement reporting purposes.

6.11 Financial statements for a whole of government reporting entity account for not only the government components through which the government directly performs its executive function, but also the organizations that the government controls. When the reporting entity is a government component or government organization, the same objective applies.

6.12 The financial statements of a reporting entity are not intended to replace the separate financial statements of its organizations when such organizations are separate reporting entities and issue financial statements. Those separate financial statements constitute important accountability reports by their respective managements. However, the financial statements of individual organizations of a reporting entity alone do not provide the users with an understandable overview of the full nature and extent of the financial affairs, economic resources and economic obligations for which the reporting entity is accountable. Only the consolidated financial statements of a reporting entity can provide the overview necessary for demonstrating accountability in this broad sense.

REPORTING FINANCIAL POSITION

6.13 *Objective 2: Financial statements should present information to describe an entity's financial position at the end of the accounting period.* [APRIL 2026]

6.14 Financial position information is used to gain an understanding of, and assess the state of, an entity's finances at a point in time. Such information helps users assess the entity's financial sustainability, its service capacity and financial resources available for future use or required as a result of past transactions and other events.

6.15 To make such assessments, users require information about the total economic resources available to serve the public and the total claims on those resources (i.e., economic obligations) at the financial statement date. Users also require information on:

(a) the underlying nature of the entity's economic resources, and the relative degree of flexibility in their application; and

(b) the underlying nature of the entity's economic obligations, including how they would be settled.

6.16 Knowing the nature of economic resources highlights for users a fundamental characteristic of public sector entities noted in Chapter 2, paragraphs 2.62-2.64, "Nature and use of public resources." Knowing the nature of the economic obligations helps users assess the past choices the entity has made in relation to its financing and stewardship decisions as well as future cash flow requirements. Accountability for financial position is strengthened when the financial statements separately report the significant categories of economic resources and economic obligations.

6.17 There are only two categories of economic resources: financial and non-financial. The key distinction between an entity's financial and non-financial resources is how they can be applied in the future. **Financial resources** can be used to discharge financial obligations, invest or provide services, while **non-financial resources** can normally be used only to provide services. Non-financial resources are a category of economic resources that are not financial resources. Understanding the extent of an entity's financial resources helps users assess its flexibility and ability to discharge existing financial obligations and provide services. Understanding the extent of the entity's non-financial resources helps users assess the entity's financial sustainability. Reporting the amount of non-financial resources can inform:

(a) why financial resources, financial obligations or non-financial obligations have changed;

(b) the cost of providing future services;

(c) the stewardship of these resources, in terms of their use and/or the need for future refurbishment, replacement or replenishment.

6.18 There are only two categories of economic obligations: financial and non-financial. The key distinction between an entity's financial and non-financial obligations is how they are settled. **Financial obligations** are settled through the use of financial resources; non-financial obligations are not. Non-financial obligations are settled through the use of non-financial resources, or through providing access rights to non-financial resources of the entity. **Non-financial obligations** are a category of economic obligations that are not financial obligations. Non-financial obligations do not represent future financial resource requirements. Understanding the extent of an entity's financial obligations helps users assess the entity's debt management practices and its need for future financial resources. Understanding the extent of the entity's non-financial obligations helps users assess the entity's financial sustainability and the extent to which its non-financial resources have specific conditions on the use of the resources, or on external access to the resources.

6.19 Financial position provides information about the service capacity arising from past transactions and other events that an entity:

(a) has available at the end of the accounting period to meet its objectives in the future; or

(b) will need to obtain in the future to pay for past activities. 20

6.20 Accountability for financial position is further strengthened when the financial statements separately report the significant identifiable sources of an entity's financial position. This information can help users understand the nature of an entity's financial position.

6.21 Understanding how the entity's past financial activities and commitments affect its ability to provide future services is essential accountability and affordability information. Reporting on an entity's net financial resources or net financial obligations status provides this important information, which also helps in assessing the entity's financial sustainability. A net financial resources status means there are financial resources available to provide services in the future or meet financial obligations. A net financial obligations status means there is a need for future financial resources to settle past financial obligations; it represents a "lien" on future resources and affects an entity's ability to finance its activities, provide services and meet its obligations in the future.

REPORTING CHANGES IN FINANCIAL POSITION

6.22 *Objective 3: Financial statements should present information to describe the changes in the entity's financial position in the accounting period. This information describes:*

(a) *the sources, allocation and use of the entity's economic resources, that explain the entity's financial performance;*

(b) *how the entity financed its activities; and*

(c) *how it met its cash requirements in the accounting period.* [APRIL 2026]

6.23 Users require information to understand why the entity's financial position changed as a result of its activities, transactions and other events that occurred during the period. This change represents the entity's financial performance for the period that can be measured and reflected in the financial statements. It is broken down, presented and explained in financial statements from more than one perspective (e.g., periodic surplus or deficit, cash flow).

6.24 To understand changes in financial position, users require financial statements to provide a meaningful summary of the sources, allocation and use of the economic resources an entity administers in carrying out its activities in the period. Such information helps users understand the nature and extent of the entity's resource-raising activities and the purposes to which resources were used and applied.

6.25 To understand one fundamental aspect of the change in financial position, users require information about whether the operating activities, transactions and other events that occurred during the period increased or decreased the entity's net economic resources or net economic obligations from what existed at the beginning of the period (i.e., resulted in a surplus or deficit). However, not all changes in an entity's financial position are necessarily included in surplus or deficit. Certain circumstances, as identified and approved by PSAB in standards pursuant to the due process, may result in different accountability explanations for some aspects of the change in financial position. For example, one part of financial performance requiring separate accountability, and therefore reporting outside of surplus or deficit, consists of those changes that relate to certain unrealized remeasurements. Such remeasurements are unrealized, relate to changes in economic conditions not directly controlled by the entity, and are less likely to be replicable. This separation supports improved reporting on accountability and stewardship of resources. The Board may require a part of financial performance to be presented outside of surplus or deficit if such presentation better contributes to meeting the accountability objective.

6.26 To understand another key aspect of changes in financial position, users also require information related to the sources, allocation and use of cash resources in the period. Information about cash flows is important because it shows whether the activities of the period are providing cash resources or whether cash requirements have been met by incurring debt or other economic obligations. Useful information explains the entity's cash requirements during the period and how these requirements were met. Such information allows users to assess how the different activities affect the entity's cash position.

6.27 Reporting on the various aspects of changes in financial position allows for a more understandable explanation of how the transactions and other events of the accounting period affected the overall financial position of the entity.

COMPARING ACTUAL FINANCIAL PERFORMANCE TO THAT BUDGETED

6.28 *Objective 4: Financial statements should provide a comparison of the actual financial performance, as reported in financial statements, to that budgeted. Accountability regarding actual financial performance in comparison with the budget is best served when the approved budget uses the same basis of accounting, follows the same accounting principles, is for the same scope of activities and uses the same classifications as the financial statements.* 21 [APRIL 2026] [Former footnote

21 of paragraph 6.28 of the Conceptual Framework, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

6.29 Comparing actual financial performance against the budget is a fundamental component of financial accountability in the public sector. The actual-to-budget comparison in the financial statements closes the accountability cycle. It is crucial for users when assessing accountability to have information to be able to compare what was budgeted to what actually happened.

6.30 In certain circumstances, it may not be possible for entities to set a meaningful budget for some aspects of financial performance reported in financial statements, such as some unrealized remeasurements arising in the period. Nevertheless, an actual-to-budget comparison needs to be provided in relation to the sources and uses of economic resources that make up the surplus or deficit for the period.

6.31 Actual financial performance needs to be compared with the originally approved budget of the entity. A comparison with a budget that has been updated to take into account transactions and other events occurring during the period significantly reduces the accountability value of the comparison. Such comparison may reduce differences and limit explanations of changes occurring throughout the period. However, there may be rare circumstances in which there is new governance (i.e., new legislature, council or, for government organizations, a new board 22) that approves a new budget part way through a fiscal year. In such cases, the new approved budget may be more useful for accountability purposes. [Former footnote 22 of paragraph 6.31 of the Conceptual Framework, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

DISCLOSING NON-COMPLIANCE WITH FINANCIAL AUTHORITIES

6.32 *Objective 5: Financial statements should provide information that shows whether an entity's financial affairs, economic resources and economic obligations were administered in accordance with the requirements and limits established by the appropriate financial authorities. Specifically, financial statements should provide information that highlights when an entity's application or use of economic resources, raising of economic resources, borrowing and investing activities were not carried out within the limits authorized by the financial authorities. Financial statements should provide information to allow users to assess the significance and financial implications of non-compliance.* [APRIL 2026]

6.33 Users look to financial statement information as a principal means of determining whether the public resources entrusted to a public sector entity were administered in accordance with its financial authorities. Financial authorities are financial control mechanisms relating to the expected raising, use and management of public resources. Such authorities are unique to the public sector and reporting non-compliance with such authorities enhances the transparency and accountability provided by financial statements. 23

6.34 Financial authority, established through legislation or other means, may give direct authority to an entity to provide services at specified costs, to spend, to raise resources, to invest and to borrow; or it may delegate powers that give similar authority to its controlled organizations. While it is the sole prerogative of the government to propose budgets for spending and financing of its activities, all costs, spending, resource raising, investing and borrowing must be sanctioned through the financial authorities established. Similar financial authorities apply to the components and controlled organizations that make up government.

6.35 Providing information on non-compliance with financial authorities is important. This information allows users to assess the significance and financial implications of non-compliance. The concepts of professional judgment and materiality would be considered in determining the nature and extent of the information financial statements would provide on non-compliance with financial authorities. 24

DISCLOSING RISKS AND UNCERTAINTIES

6.36 *Objective 6: Financial statements should provide information to describe the risks and uncertainties that could affect the entity's financial position or changes in financial position. Such information is useful for evaluating the nature and extent of these risks and uncertainties and the entity's management of them.* [APRIL 2026]

6.37 Individual standards provide disclosure requirements for specific risks and uncertainties.

6.38 Risks and uncertainties are often externally driven and outside the entity's control. Therefore, users require information to assess an entity's exposure to risks and uncertainties and how its financial position and changes in financial position might be affected. To make this assessment, users require disclosures about:

(a) risks and uncertainties that could affect what is reported in financial statements; and

(b) the management of these risks and uncertainties.

6.39 Disclosing these risks and uncertainties helps users:

(a) evaluate the nature and extent of risks and uncertainties to which an entity is exposed at the financial statement date;

(b) analyze the entity's sensitivity to its risk exposures and uncertainties;

(c) assess the management of these risks and uncertainties; and

(d) assess the entity's ability to meet its objectives in the short and long term.

6.40 Disclosing information regarding the risks and uncertainties an entity is exposed to at the reporting date is essential to demonstrating accountability to the users. Nevertheless, some risk and uncertainty disclosures are more properly included in financial reporting other than financial statements.

6.41 Financial statements would provide information about risks and uncertainties in a way that is clear and sufficient, not excessive. The concepts of professional judgement and materiality would be considered in determining the nature and extent of the information financial statements would provide about risks and uncertainties in the financial statements. The information would focus on risks and uncertainties significant to users' assessments of financial position and changes in financial position. In applying professional judgment in determining these disclosures, reference to the presentation concepts for financial statements in Chapter 10 would be appropriate.

MEETING THE OBJECTIVES

6.42 In addition to the financial statement foundations set out in Chapter 5, it is necessary to establish further concepts to meet the financial statement reporting objectives, such as the:

(a) definitions of the elements reported in financial statements;

(b) criteria for determining when elements of financial statements are recognized;

(c) attributes appropriate for measuring the elements; and

(d) presentation parameters for making consistent financial statement display decisions.

CHAPTER 7: financial statement information: qualitative characteristics and related considerations 25

INTRODUCTION

7.01 Information reported in financial statements is based on the financial statement objectives, as identified in Chapter 6, "Financial Statement Objectives," and meets certain qualitative characteristics. These objectives and characteristics affect the nature and extent of the information reported in financial statements and influence the location, structure and organization of the information communicated. Generally, the aim is to achieve an appropriate balance among the characteristics to meet the objectives of financial statements. There are certain considerations to take into account in achieving this balance. The intent is to have transparent information in financial statements that meets the accountability objective.

7.02 The qualitative characteristics of information included in an entity's financial statements are the attributes that make the information useful to users for accountability purposes.

QUALITATIVE CHARACTERISTICS

7.03 *The qualitative characteristics of the information reported in financial statements are:*

(a) *relevance;*

(b) *faithful representation;*

(c) *verifiability;*

(d) *comparability;*

(e) *understandability; and*

(f) *timeliness.* [APRIL 2026]

Relevance

7.04 Information in financial statements is relevant if it can inform users' evaluation of an entity's accountability for its governance, performance, stewardship and sustainability by:

(a) confirming or revising their past evaluations (confirmatory value); and/or

(b) helping them evaluate the potential effects of and form predictions about the future outcomes of past or present transactions and other events (predictive value).

Confirmatory and predictive value

7.05 Information that confirms or revises previous results, evaluations or predictions has confirmatory value. Information that confirms past expectations can reinforce expectations. If the information changes expectations, it changes the perceived probabilities of the range of possible outcomes or their amounts. Therefore, the information changes the degree of confidence in past expectations and is capable of making a difference in the evaluation of the entity's governance, performance, stewardship and sustainability.

7.06 Information has predictive value if, for example, users of financial statements use it or could use it to forecast an entity's future financial results and cash flows and assess its sustainability. Information need not be forward-looking (i.e., be a prediction or forecast) to have predictive value. Users can use information about the past to help form their expectations about the future.

7.07 The confirmatory and predictive roles of financial statement information interrelate. Information that has predictive value usually also has confirmatory value.

Faithful representation

7.08 To be useful for accountability purposes, financial statement information must faithfully represent the economic resources, economic obligations, transactions and other events that it purports to represent.

7.09 The aspects of faithful representation are:

(a) substance over form;

(b) completeness;

(c) neutrality; and

(d) freedom from material error.

7.10 Inaccurate, inappropriate or incomplete information will not faithfully represent the substance of an economic resource, economic obligation, transaction or other event. Such information would inhibit rather than enhance understanding, adversely affecting the accountability provided by the financial statements to users.

7.11 Consideration of uncertainty is important for accrual-based financial statements to provide a faithful representation of economic resources, economic obligations, transactions and other events. Economic activities occur in an environment characterized by uncertainty. Uncertainty is considered when establishing the amount at which the item is recognized in financial statements. Financial statements often include estimates involving assumptions and the application of professional judgment. An estimate based on appropriate inputs would faithfully represent an economic resource, economic obligation, transaction or other event. Each input would reflect the best available information. It may sometimes be necessary to disclose explicitly the degree of uncertainty to faithfully represent an economic resource, economic obligation, transaction or other event of an entity.

Substance over form

7.12 To get at the substance of an item is to understand its meaning or essence. In financial statements, the substance of an item is its economic reality, which may or may not be the same as its legal form.

7.13 Differentiating the substance from the legal form of a transaction or other event entails using professional judgment based on all available evidence.

7.14 The need to derive the substance of a transaction or other event may arise because the transaction or other event is complex, or the legal form does not represent its substance. This may be because the transaction has:

(a) legal complexities;

(b) many rights and obligations embedded in the transaction or other event; or

(c) many parties to the transaction.

Completeness

7.15 Information is complete when all the data necessary to achieve a faithful representation is present. Completeness means providing sufficient information about economic resources, economic obligations, transactions or other events of such size, nature or incidence that their inclusion is necessary for users to understand the entity's financial position and periodic financial performance and to hold it accountable.

7.16 A complete depiction includes a numeric representation as well as all the necessary descriptions and explanations of the economic resource, economic obligation, transaction or other event.

Neutrality

7.17 Information is neutral when it is bias-free.

7.18 Bias in measurement occurs when the financial statement elements are consistently overstated or understated. In the selection of accounting policies, bias may occur when the selection is made with the interests of particular users, or with particular objectives, in mind. Financial statements that do not include everything necessary for the faithful representation of transactions and other events affecting the entity would be incomplete and, therefore, potentially biased.

7.19 Accounting information cannot avoid affecting behaviour. However, to be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates to influence behaviour in a particular direction.

Freedom from material error

7.20 Faithful representation does not mean accurate in all respects. Freedom from material error means:

(a) there are no errors or omissions that are individually or collectively material in the representation of economic resources, economic obligations, transactions or other events; and

(b) the process used to produce the reported information has been selected and applied with no material errors.

7.21 In some cases, accuracy is easily achieved (e.g., cash paid to acquire an economic resource). In other cases, such as estimates, evaluating the degree of accuracy of a reported amount may be less straightforward. A representation of that estimate can be faithful if:

(a) the amount is described clearly and accurately as being an estimate;

(b) the nature and limitations of the estimating process are explained; and

(c) no errors have been made in selecting and applying an appropriate process for developing the estimate. 26

Verifiability

7.22 Verifiability is the quality of information that helps assure users that information in financial statements faithfully represents the economic resources, economic obligations, transactions and other events that it purports to represent. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

7.23 Generally, verifiability means that a representation can be examined or observed so that knowledgeable and independent individuals, using the same methods, would get essentially the same result. In relation to financial statement information, verifiability can mean that either the representation of a transaction or other event may itself be verifiable, or that the method used to establish the representation may be verifiable.

Comparability

7.24 Comparability is a characteristic of the relationship between two or more pieces of information, such as that between:

(a) an entity's actual financial performance with that budgeted;

(b) the same entity's financial statements for different periods; or

(c) different entities' financial statements.

Comparability enables users to identify similarities in and differences between the information provided by multiple sets of financial information.

7.25 The comparison of actual financial statement performance with that budgeted is a fundamental component of the financial accountability cycle in the public sector. Such a comparison is meaningful when the budget is presented using the same:

(a) basis of accounting;

(b) accounting principles;

(c) scope of activities; and

(d) classifications

as the financial statements.

7.26 Consistency in application of accounting policies is important:

(a) when comparing the financial statements of the same entity over periods or at different points in time; or

(b) when comparing actual-to-budget financial performance of the same entity.

Consistency helps prevent misconceptions that might result from the application of different accounting policies. When a change in accounting policy is deemed appropriate, disclosure of the effects of the change is necessary to maintain comparability.

7.27 Application of uniform accounting standards is important when comparing the financial statements of different entities.

Understandability

7.28 Accountability is best achieved when the financial information provided can be understood. The information presented might be relevant to the entity demonstrating its governance, performance, stewardship or sustainability, or relevant to a user in making a decision. However, unless information is understandable, it does not serve its purpose.

7.29 Classifying, characterizing and presenting financial information clearly, concisely and simply enhances understandability. Contextual and explanatory information is also helpful. Clear and precise facts alone may not be sufficient for a user to understand the information. Excessive detail, vague or overly technical descriptions and complex presentation formats may cause confusion and misinterpretation.

7.30 Efforts are to be made to present financial statement information in an understandable manner. Accounting policy and presentation choices must strive to reduce complexity wherever possible, 27 while ensuring that the economic substance of transactions and other events is faithfully represented. Reducing complexity to improve understandability does not mean excluding complex transactions and other events from the financial statements. Similarly, the financial statements cannot simplify complex transactions to such an extent that their depiction misrepresents their substance or is otherwise misleading.

7.31 Understandability enables users who have a reasonable understanding of economic activities and accounting, together with a willingness to study the financial information with reasonable diligence to comprehend the meaning of the financial information presented in financial statements. However, the nature of financial statement information is such that there are limits to making it understandable to all users. In certain circumstances, users may need assistance to understand information presented in financial statements.

Timeliness

7.32 Timeliness means having information available to users before it loses its capacity to affect the evaluation of the entity's governance, performance, stewardship and sustainability, or to inform decisions. The less timely the information, the less useful it is for holding the entity and its management to account and for making decisions.

7.33 However, some information may continue to be useful long after the end of a reporting period.

RELATED CONSIDERATIONS

7.34 *Financial statement information aims to achieve an appropriate balance among the qualitative characteristics while meeting the accountability objective. The relative importance of the characteristics in different cases is a matter of professional judgment. The considerations to take into account in striving to achieve this balance among the characteristics include:*

(a) *benefit versus cost;*

(b) *materiality; and*

(c) *prudence.* [APRIL 2026]

Benefit versus cost

7.35 Financial information is an economic good: it comes at a cost and provides benefits, primarily to those to whom an entity is accountable. While the benefit expected to arise from providing information in financial statements is to justify the cost of its provision and use, assessing whether the benefits of providing specific information justify the related costs is often a matter of professional judgment. This is because the benefits and costs are often not easily identified and/or quantified, and they accrue to different parties.

7.36 Users receive benefits from the information provided by financial statements: increased entity accountability reporting and transparency and the ability to make more-informed decisions.

7.37 Preparers also benefit from the information provided by the entity's financial statements:

(a) better information for decision-making by management;

(b) improved discussions with users;

(c) demonstrated accountability for resources entrusted to the entity; and

(d) financial statement numbers that anchor other performance and accountability measures.

7.38 The costs to preparers of providing financial statement information include collecting, processing, presenting, verifying and disseminating it.

7.39 Users incur the costs of analyzing and interpreting the information. They absorb the costs associated with the risk of making decisions using incomplete information and of obtaining necessary information from other sources. Associated with this, and particularly difficult to quantify, are the costs associated with information sacrificed on the basis of cost that met one or more of the qualitative characteristics.

Materiality

7.40 Information is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make based on the financial statements.

7.41 Materiality is a matter of professional judgment in the particular circumstances. It is judged in relation to the reasonable prospect of its significance in making assessments and judgments by users of financial statements.

7.42 Materiality would be considered from qualitative and quantitative perspectives. From a quantitative perspective, it provides a threshold or cut-off point for determining what information to recognize and report or disclose. From a qualitative perspective, an item may be considered material in substance even if the monetary value is not considered significant.

7.43 Materiality is used to assess the potential effects of omitting, misstating, obscuring or not disclosing separately information that otherwise meets the qualitative characteristics. Materiality depends on the size and/or nature of the omission, misstatement or obscuring of information judged in relation to the surrounding circumstances.

7.44 Materiality is an entity-specific consideration based on the nature or magnitude, or both, of the item, transaction or other event to which the information relates in the context of an individual entity's financial statements. An evaluation of whether an item, transaction or other event is material or immaterial for accountability purposes would consider all quantitative and qualitative information relevant to the decision. An item, transaction or other event may not be individually material, but when combined with other items, transactions or other events of similar nature and substance, the item, transaction or other event may collectively be material for accountability purposes.

Prudence

7.45 Prudence is the exercise of caution when making judgments under conditions of uncertainty. Exercising prudence means not understating or overstating the financial statement elements. Any deliberate understatement or overstatement can lead to invalid assessments of accountability and suboptimal decisions. The concept of neutrality within the qualitative characteristic of faithful representation is supported by the exercise of prudence.

7.46 Prudence is also inherent in the application of professional judgment in determining the nature and extent of information to be provided in financial statements to meet the overarching accountability objective and the objectives of financial statements.

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elements of financial statements 28

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INTRODUCTION

8.01 Financial statement users are interested in the economic resources, economic obligations, transactions and other events that give rise to an entity's financial position and periodic financial performance.

8.02 Financial statements represent the results of numerous transactions and other events that necessarily involve a high degree of summarization and classification. Aggregating information into common classifications that characterize their nature enhances users' ability to understand large numbers of items, transactions and other events.

8.03 The purpose of identifying elements of financial statements is to provide a common and useful starting point for classifying items, transactions and other events in a way that enhances users' understanding of the detailed information contained in an entity's financial reporting system.

8.04 Elements of financial statements are important because they represent the first-level grouping of similar items, transactions and other events for summarizing and classifying. These groupings are not only based on a shared nature or common distinguishable characteristics; they also assist with meeting the financial statement objectives. The elements provide information needed for measuring financial position and periodic financial performance.

8.05 Element definitions are derived from the service capacity concept in Chapter 4 and the foundations of financial statements in Chapter 5, such as control, an identifiable reporting entity and the accrual basis of accounting.

(a) Service capacity is an entity's capacity to serve the public. Those aspects of service capacity that arise from past transactions and other events that create and/or change measurable economic resources and economic obligations are reported in financial statements.

(b) Financial statements report the financial position and periodic financial performance of an identifiable reporting entity, including its components and organizations. As established in Chapter 6, "Financial Statement Objectives," the boundary of a reporting entity is defined by what it controls.

(c) Under the accrual basis of accounting, element definitions must encompass all the economic resources that an entity controls, the economic obligations it must meet and the increases or decreases in those resources and obligations, regardless of when cash is exchanged.

8.06 The two types of elements are:

(a) those that describe economic resources and economic obligations of an entity at a point in time; and

(b) those that describe changes in economic resources and economic obligations over a period of time.

For financial statements, the elements are assets, liabilities, revenues and expenses.

8.07 The elements that describe an entity's economic resources and economic obligations at a point in time are assets and liabilities. The elements that make up the changes in economic resources or economic obligations in an accounting period are revenues and expenses. Together, revenues and expenses explain the change in the net assets (net economic resources) or net liabilities (net economic obligations) position of an entity in the accounting period. 29 The definitions of revenues and expenses are derived from the definitions of an asset and a liability. This approach instills rigour and discipline, promotes consistency and improves comparability in the determination of periodic financial performance. Although revenues and expenses are defined in terms of changes in assets and liabilities, for accountability purposes, revenues and expenses are just as important as assets and liabilities.

ASSETS

Definition

8.08 An **asset** is a present economic resource controlled by an entity as a result of a past event(s) and from which future economic benefit is expected to be obtained.

8.09 An **economic resource** represents value because it enables an entity to meet its objectives. Without an economic resource, future economic benefits cannot be obtained.

8.10 To satisfy the definition of an asset, the present economic resource that an entity controls must arise as a result of a past transaction or other event. However, the complexity of public sector programs and activities means that several transactions and/or other events, rather than just one, may also give rise to an asset. Events include transactions. Transactions are a subset of events.

8.11 **Expected** refers to that which can reasonably be anticipated or believed based on available evidence or logic but is neither certain nor proved. No numerical value quantifies what the expected threshold would be interpreted to mean in all instances. Quantitative and qualitative evidence and professional judgement is considered when deciding if future economic benefits associated with an item are expected to be obtained.

Characteristics

8.12 Assets have three essential characteristics:

(a) the entity controls the economic resource and access to the future economic benefit(s);

(b) the transaction(s) or other event(s) giving rise to the entity's control has already occurred; and

(c) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce future cash outflows.

8.13 Economic resources are not assets unless they have all the essential characteristics of assets. For example, an economic resource does not qualify as an asset of an entity if it involves:

(a) future economic benefit that the entity cannot access;

(b) future economic benefit but the transaction(s) or other event(s) that gives the entity control of the economic benefit has not yet occurred; or

(c) no future economic benefit.

8.14 Physical form is not a necessary condition of an economic resource.

LIABILITIES

Definition

8.15 A **liability** is a present economic obligation of an entity to others as a result of a past event(s), the settlement of which is expected to result in a future sacrifice of economic benefit.

8.16 An **economic obligation** represents a duty or responsibility to others that an entity has no practical ability to avoid. It would be settled through the future sacrifice of economic benefits. Sacrificing economic benefits involves a future transfer or use of economic resources.

8.17 A performance obligation is a type of economic obligation. 30

8.18 A liability could be to one or more persons or to one or more entities separate from the entity that is reporting.

8.19 To satisfy the definition of a liability, a present economic obligation must arise as a result of a past transaction or other event. However, the complexity of public sector programs and activities means that several transactions and/or other events, rather than just one, may also give rise to a liability. Events include transactions. Transactions are a subset of events.

8.20 As with the asset definition, the word "expected" is used with its usual general meaning and refers to that which can reasonably be anticipated or believed based on available evidence or logic but is neither certain nor proved. No numerical value quantifies what the expected threshold would be interpreted to mean in all instances. Quantitative and qualitative evidence and professional judgement is considered when deciding if future economic benefits associated with an item are expected to be sacrificed.

Characteristics

8.21 Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others, leaving an entity little or no discretion to avoid settlement of the obligation;

(b) the duty or responsibility to others entails settlement by future transfer or use of economic resources (such as the provision of goods or services or other form of economic settlement) at a specified or determinable date, on occurrence of a specified transaction or other event, or on demand; and

(c) the transaction(s) or other event(s) obligating the entity has already occurred.

8.22 Economic obligations are not liabilities unless they have all three characteristics of liabilities. For example, an economic obligation does not qualify as a liability of an entity if:

(a) the entity does not have the duty or responsibility to settle the obligation;

(b) the economic obligation will not result in a future sacrifice of economic benefit; or

(c) the transaction(s) or other event(s) obligating the entity has not yet occurred.

REVENUES AND EXPENSES

Definitions

8.23 **Revenue**, including a gain, is an increase in assets or a decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities.

8.24 An **expense**, including a loss, is a decrease in assets or an increase in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities.

Examples

8.25 Revenue, other than a gain, can arise, for example, from:

(a) taxation;

(b) fines;

(c) penalties;

(d) the sale of goods;

(e) the rendering of services;

(f) income from investments;

(g) the use by others of the entity's economic resources yielding rent, interest, royalties or dividends; or

(h) the receipt of contributions of resources such as grants and donations.

8.26 An expense, other than a loss, can arise, for example, from:

(a) the provision of services;

(b) the production of goods;

(c) amortization of tangible capital assets;

(d) the use of others' economic resources resulting in rent, interest or other financing costs; or

(e) the transfer of resources, such as through grants or other contributions.

8.27 A gain and a loss can arise, for example, from:

(a) the disposition of assets purchased for use and not for resale;

(b) the liquidation or refinancing of debt; and

(c) remeasurements.

8.28 Changes in issued share capital are rare examples of changes in net assets or net liabilities in the public sector. Changes in issued share capital do not represent revenue or expense. Changes in issued share capital are direct increases or decreases in net assets or net liabilities.

CHAPTER 9:
recognition and measurement in financial statements 31

INTRODUCTION

9.01 Recognition and measurement in financial statements are inextricably linked. An item, transaction or other event must be measurable to be recognized. However, there may be items, transactions or other events that can be measured that are not recognized but merely disclosed because other recognition criteria are not met.

9.02 Recognition, derecognition and measurement requirements for specific items, transactions or other events may be established at the standards level.

RECOGNITION

9.03 **Recognition** means the inclusion of an item, transaction or other event within one or more individual statements. Recognition does not mean disclosure in the notes and schedules to the financial statements. Notes and schedules provide: 32

(a) further details about items, transactions or other events recognized in the financial statements; or

(b) information about items, transactions or other events that do not meet the criteria for recognition and, therefore, are not recognized in the financial statements.

Similar items, transactions or other events may be grouped together on the face of the financial statements for presentation purposes.

9.04 Recognition decisions include:

(a) whether an item, transaction or other event is to be included in the financial statements;

(b) when such an item, transaction or other event is to be included; and

(c) at what amount the item, transaction or other event is included.

General recognition criteria

9.05 *An item, transaction or other event is recognized in the financial statements when:*

(a) *the item, transaction or other event meets the definition of an element;*

(b) *it is expected that the future economic benefits related to the item will be obtained or sacrificed; and*

(c) *the item, transaction or other event can be measured in a way that satisfies the qualitative characteristics of information and takes into account the related considerations as noted in Chapter 7.*

9.06 Even if a specific standard does not exist for a particular item, transaction or other event, the item, transaction or other event would be recognized in financial statements if it meets the general recognition criteria, subject to the concepts identified in Chapter 7, "Financial Statement Information: Qualitative Characteristics of Financial Information and Related Considerations."

9.07 The general recognition criteria require the assessment of:

(a) existence uncertainty; and

(b) measurement uncertainty, including:

(i) realization uncertainty; and

(ii) estimation uncertainty.

9.08 Assessments of uncertainty are based on all available evidence at the reporting date. The conditions that give rise to uncertainty can change; therefore, it is important to assess uncertainty at each reporting date. Professional judgment would be applied in assessing these types of uncertainty and their impact on recognition and measurement.

Existence uncertainty

9.09 Existence uncertainty deals with the question of whether an item, transaction or other event meets the definition of an element. This question requires a binary answer: either an item, transaction or other event meets the definition of an element or it does not. All available evidence relevant to the question is considered when coming to a determination. Only items that meet the definition of an element of financial statements are recognized. Chapter 8, "Elements of Financial Statements," defines the elements.

9.10 Individual standards may provide guidance as to how existence uncertainty should be evaluated for a particular financial statement item. For example, in CONTINGENT LIABILITIES, Section PS 3300, and CONTINGENT ASSETS, Section PS 3320, guidance explains how to evaluate existence uncertainty in relation to possible obligations and possible assets, respectively.

Measurement uncertainty

Realization uncertainty

9.11 Realization uncertainty refers to the risk that an inflow or sacrifice of future economic benefits associated with an item will not occur. 33

9.12 Realization uncertainty may be more identifiable for some items than others. For example, the level of realization uncertainty relating to a tangible capital asset that the entity owns and employs directly when providing services will be low. The entity would expect to realize the benefits associated with that asset as its service potential is used up to provide services over its useful life unless the asset is damaged or the need for the services it provides changes.

9.13 In other cases, such as a lawsuit, the level of realization uncertainty may be less easily identified and quantified for measurement purposes. The following are considerations when determining the amount to recognize and/or disclose in relation to items for which there is realization uncertainty:

(a) possible outcomes relating to the item; and

(b) the expectation of each possible outcome in the opinion of management, in consultation with legal advisors where appropriate.

9.14 When a determination is made that an inflow or sacrifice of future economic benefits related to an item is expected, the item may qualify for recognition. Recognition decisions are based on a holistic evaluation of the circumstances and possible outcomes and supported by all available evidence regarding the expectation of realization.

9.15 "Expected" is the realization threshold for recognition in financial statements. Items not expected to be realized are not recognized in the financial statements. The use of the word "expected" in the recognition criteria is intended to acknowledge that economic activities occur in an environment characterized by uncertainty. It is not intended to accommodate the recognition of items, transactions or other events that do not meet the definition of one of the elements of financial statements. By implication, recognition would, therefore, not be appropriate without the occurrence of a past event that gives rise to an asset, liability, revenue or expense.

9.16 The word "expected" is used with its usual general meaning and refers to that which can reasonably be anticipated or believed based on available evidence or logic but is neither certain nor proved. No numerical value quantifies what the expected threshold would be interpreted to mean in all instances. Quantitative and qualitative evidence is considered when deciding if the inflow or sacrifice of future economic benefits associated with an item is expected to be realized. The determination of when the expected threshold of realization uncertainty is met is a question of professional judgment.

9.17 An entity would evaluate the level of realization uncertainty at each reporting date.

Estimation uncertainty

9.18 The measurement of an item that meets the definition of an element, and is expected to be realized, may involve a known or estimated amount. The measurement of a transaction or other event that meets the definition of an element, may also involve a known or estimated amount.

9.19 For known amounts, such as for an unconditional amount resulting from an arm's length exchange transaction between knowledgeable, willing parties who are under no compulsion to act, estimation uncertainty is not a factor. Such items, transactions or other events would be initially recognized at the known amount.

9.20 In other cases, there is no known amount, and an estimate is required for initial recognition. In such cases, estimation uncertainty is considered in determining the amount at which to recognize an item, transaction or other event in financial statements, and in determining the nature and extent of the disclosures relating to such measurement.

9.21 An economic resource is not precluded from recognition as an asset merely because it is measured using an estimate. Similarly, an economic obligation is not precluded from recognition as a liability merely because it is measured using an estimate.

9.22 Many items, transactions or other events recognized are measured using management's best estimates based on a consideration of all available evidence, such as assumptions that reflect expected economic conditions and planned courses of action. When a particular amount within a range of possible amounts appears to be a better estimate than any other, that amount would be used.

9.23 If there is a range of reasonably possible amounts for measuring an item, transaction or other event and this estimation uncertainty would have a material effect on the financial statements, then disclosures about the range of amounts, assumptions used in estimating and other information may also be required.

9.24 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine the ability to faithfully represent financial position and financial performance. Professional judgment is required when determining a reasonable estimate. However, when a reasonable estimate cannot be made, the item, transaction or other event is not recognized in the financial statements. Disclosure of the item, transaction or other event may be required.

Disclosure

9.25 Disclosure can provide information on items, transactions or other events that:

(a) meet many, but not all, of the essential characteristics of the definition of an element (for example the inflow or sacrifice of future economic benefits is not expected to be realized); or

(b) meet the definition of an element and the inflow or sacrifice of future economic benefits is expected to be realized, but the item cannot be measured.

9.26 Disclosure is appropriate when knowledge of the item, transaction or other event is considered necessary for evaluating an entity's financial position or financial performance in terms of whether the accountability objective of financial reporting is achieved. Chapter 10, "Presentation Concepts for Financial Statements," provides further guidance when considering the need for such disclosure.

9.27 When a material change in an amount that is recognized or disclosed is reasonably possible in the near term, the notes and schedules to the financial statements would need to provide information about the nature and extent of that uncertainty.

DERECOGNITION

9.28 **Derecognition** is the removal of all or part of a previously recognized item from the financial statements. This normally occurs when:

(a) all or part of an item no longer meets the definition of an asset or liability; or

(b) it is no longer expected that the future economic benefits related to the item will be obtained or sacrificed; or

(c) the item can no longer be measured.

9.29 Derecognition of a previously recognized item generally arises as a result of an entity's actions or events and circumstances affecting the entity; therefore, the need to consider derecognition of an item may occur at any time. At a minimum, at each reporting date, an entity would evaluate all available evidence as to whether actions, events or circumstances have occurred since the previous reporting date that warrant removing all or part of an item that has been previously recognized, from the financial statements.

MEASUREMENT

9.30 **Measurement** is the result or process of determining the monetary amounts at which individual items, transactions or other events are to be recognized in the financial statements.

9.31 Measurement is necessary at initial recognition and is reconsidered at every subsequent reporting date. Measurement decisions are based on a holistic evaluation of the circumstances and possible outcomes and supported by all available evidence.

9.32 A measurement attribute is the feature of the asset or liability that is quantified. Such quantification may require estimation.

9.33 Several measurement attributes can be used for initial or subsequent measurement in financial statements. Initial or subsequent measurement of an asset or liability may require estimation of its required measurement attribute. 34 Although not comprehensive, the following lists possible measurement attributes:

(a) Historical cost is:

(i) the amount of cash or its equivalent paid, or the value of other consideration given up, to acquire, construct or develop an asset;

(ii) the amount of cash or its equivalent, or the value of the other consideration received when a liability is incurred (i.e., historical proceeds);

(iii) the estimated amount of cash or its equivalent to be paid or other consideration to be sacrificed to

a. settle a liability; or

b. acquire, construct or develop an asset.

Historical cost is a measurement attribute used for initial measurement. At initial measurement, if the historical cost of an asset or liability is not identifiable from the transaction or other event giving rise to it (i.e., is not a known amount), an estimated historical cost may be required. The fair value ascribed to the asset or liability at initial measurement may be one way to estimate its historical cost.

Subsequent to initial measurement:

(i) the historical cost of an asset may be adjusted (e.g., for amortization or impairment); or

(ii) the historical cost of a liability may be adjusted (e.g., to reflect the accrual of interest, the accretion of a discount or amortization of a premium); or

(iii) an estimated historical cost amount may be adjusted because of a change in an estimate.

(b) Replacement cost is the amount needed currently to acquire an asset with the equivalent service potential. This attribute may be used, for example, if inventories were required to be valued at the lower of historical cost and replacement cost.

Replacement cost is an attribute considered primarily for assets. However, for liabilities, an equivalent measurement would be the amount of proceeds that would be obtained if the liability were incurred currently (i.e., current proceeds).

(c) Realizable value is the amount that would be received by selling an asset (i.e., the amount of cash or its equivalent into which an asset is expected to be converted in the due course of operations). This attribute may be used, for example, to value tax receivables. Fair value may be used to estimate realizable value when a market for an asset exists. For liabilities, an equivalent measurement would be the amount that either a creditor will accept in settlement of the liability or a third party would charge to accept the transfer of the liability.

(d) Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. This measurement attribute may be used, for example, to value derivatives and portfolio investments in equity instruments quoted in an active market, or for valuation of donated capital assets. 35 Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

9.34 Various measurement techniques may be used for estimation of a measurement attribute; measurement techniques are not measurement attributes. Examples of measurement techniques include present value, statistical modelling, and option pricing models:

(a) Present value is the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. This technique may be used, for example, to estimate the cost of retirement benefits, when calculating asset retirement obligations, or when determining the grant portion of concessionary loans and portfolio investments.

(b) Statistical modelling may be an appropriate valuation technique to use when multiple input sources, including economic data, and assumptions are required to estimate an amount. For example, statistical modelling may be used to estimate tax receivables.

(c) Option pricing models may be one way to measure derivatives containing an option for which no active market exists.

THE MEASUREMENT ATTRIBUTE

9.35 *Financial statements are prepared primarily by reflecting assets, liabilities, transactions and other events at their historical cost unless PSAB determines that another measurement attribute better serves the accountability objective. The justification for requiring a measurement attribute other than historical cost would be explained and documented in the relevant standard's basis for conclusions.* [APRIL 2026]

9.36 Historical cost speaks to users' needs for accountability for past decisions, transactions and other events and, more generally, past performance. The use of historical cost generally aligns with the nature of the accountabilities users seek in relation to the comparison of actual performance with that budgeted. Because use of the historical cost attribute reflects assets, liabilities, transactions and other events at the amounts at which they occurred, the financial statements can explain how the entity's management met its responsibilities. Further, historical cost information may have predictive value, as the past can inform the future.

9.37 However, there may be circumstances where another measurement attribute of an asset or liability is considered to better serve the accountability objective and better reflect the qualitative characteristics required of financial statement information. In such circumstances, PSAB may require a measurement attribute other than historical cost.

GOING CONCERN

9.38 Financial statements are prepared on the assumption that the entity is a going concern. This means that the entity will continue in operation and will be able to realize assets and discharge liabilities and meet its statutory and other obligations in the normal course of operations for the foreseeable future.

9.39 Governments are long-term institutions. Under normal circumstances, they, and the related government components that function as a core government, are expected to operate in perpetuity. This expectation is predicated on the characteristics of government, in particular the powers, rights and abilities of governments and their capacity to issue debt and raise resources. Because of their longevity, they are presumed to be going concerns. This presumption can only be rebutted by persuasive evidence to the contrary.

9.40 The going concern presumption applies to government organizations in the same way it applies to the controlling government. However, government organizations may be discontinued or sold as governments look at alternative mechanisms for delivering services and, therefore, may not operate in perpetuity.

CHAPTER 10: presentation concepts for financial statements 36

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INTRODUCTION

10.01 This chapter establishes general presentation concepts. It does not set out detailed financial statement presentation requirements, such as the required financial statements or indicators of financial position and periodic financial performance. These, and other presentation requirements, are established at the standards level. They affect the extent to which an entity can select, locate and organize information in its financial statements. Within these standards-level presentation requirements or in circumstances when presentation is not prescribed by standards, professional judgment is required in making presentation decisions. The concepts set out in this chapter provide parameters within which presentation decisions would be made.

10.02 The Conceptual Framework, which includes the qualitative characteristics and related considerations, the element definitions, recognition criteria and measurement concepts, underlies and provides guidance as to what information is included on the financial statements.

10.03 Guided by the Conceptual Framework, an entity assembles the information that will be included in its financial statements by applying the requirements of the PSA Handbook as follows:

(a) apply GAAP to all items, transactions and other events, including the reporting requirements that identify the financial statements to be prepared and the indicators of financial position and periodic financial performance that are to be reported on;

(b) for items, transactions and other events for which a standard exists, also apply the qualitative characteristics and related considerations; and

(c) for all items, transactions and other events for which no standard exists, consider the general application standards in LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210, and the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, which references the Conceptual Framework.

10.04 Once all the required information to be included in the financial statements has been assembled, an entity would consider:

(a) the presentation definition;

(b) the presentation objective; and

(c) the presentation concepts

in this chapter to determine where and how to organize the information in the financial statements.

10.05 Additional contextual and explanatory information may be required to make the financial statements understandable or to meet the financial reporting objective. 37

PRESENTATION DEFINITION AND OBJECTIVE

Presentation definition

10.06 ***Presentation*** *is how an entity communicates information in its financial statements to meet the financial reporting objective* 38 *and the specific financial statement objectives.* 39 *It involves the selection, location and organization of information. Presentation includes:*

(a) *the recognition and reporting of items, transactions and other events on the face of the financial statements, either individually or within totals; and*

(b) *disclosure in the notes and schedules to the financial statements.* [APRIL 2026]

Presentation objective

10.07 *How information is presented in financial statements should maximize the accountability value of the financial statements to the users. Its presentation should also portray a cohesive financial picture of an entity's economic activities. This presentation would:*

(a) *meet the objective of financial reporting;* 40

(b) *meet the specific financial statement objectives;* 41

(c) *consider the qualitative characteristics of financial statement information and the related considerations;* 42 *and*

(d) *achieve fair presentation.* [APRIL 2026]

10.08 A cohesive financial picture means that the relationship between items, transactions and other events across financial statements is clear and that an entity's financial statements, including the related notes and schedules, complement each other as much as possible. Ensuring that the association between the different aspects of the same transaction or other event is apparent in the financial statements is a fundamental aspect of providing a cohesive financial picture.

10.09 Public sector accounting standards identify the information required for fair presentation in financial statements.

PRESENTATION CONCEPTS

10.10 Financial information would be presented either on the face of the financial statements (i.e., line items or in subtotals and totals) or in the notes and schedules. The distinction between information that is presented on the face of a financial statement and information that is presented in the notes or schedules is determined by:

(a) the definitions of assets, liabilities, revenue and expense identified in Chapter 8;

(b) the recognition and measurement concepts identified in Chapter 9; and

(c) the financial statement objectives identified in Chapter 6.

Equality of individual statements and notes in the financial statements package

10.11 *Presentation Concept 1: No one individual statement in the financial statements package is more important than any other individual statement. Each statement has its own purpose. The notes and schedules in the financial statements package have the same significance as information recognized and reported on the face of the financial statements.* [APRIL 2026]

10.12 Individual financial statements reflect different aspects of the same transactions or other events affecting an entity. Although each statement presents different information, none is likely to serve only a single purpose or to provide all the financial information that is useful for a particular kind of assessment or decision.

10.13 Recognition and reporting of items, transactions and other events on the face of the financial statements, either individually or within totals, does not necessarily meet all the accountability requirements. Notes and schedules are integral to the financial statements. Their most basic function is to clarify and explain items, transactions and other events recognized and reported on the face of the financial statements. However, as outlined in paragraph 10.23, notes and schedules do more that just explain items, transactions and other events recognized and reported. Notes and schedules present information that augments and supports fair presentation of an entity's financial position and periodic financial performance.

10.14 All statements and the related notes and schedules would be looked at together when evaluating the presentation of an entity's financial position and periodic financial performance for cohesiveness 43 and how well it meets the qualitative characteristics of financial information. How items, transactions and other events are presented in financial statements helps users of financial statements assess an entity's financial position and periodic financial performance. This assessment is easier to achieve when relationships among the statements, and the items, transactions and other events presented in them, are clear. The related disclosures in the notes and schedules are crucial to providing a cohesive picture of an entity's financial position and periodic financial performance that meets the qualitative characteristics and related considerations.

Disclosure

10.15 Disclosure can provide information on items that meet many but not all the essential characteristics of an element. Disclosure can also provide information on items that meet the definition of an element, but a reasonable estimate cannot be made of the amount involved. Disclosure is generally appropriate when knowledge of the item, transaction or other event is considered necessary to evaluating the entity's accountability for its financial position or periodic financial performance and, therefore, meets the objective of financial statements.

10.16 *Presentation Concept 2: Information presented in financial statements meets the presentation objective when it:*

(a) *provides information at the level of detail appropriate to financial statements;*

(b) *gives higher profile in disclosures to matters of importance that have occurred in the period; and*

(c) *is entity and period specific.* [APRIL 2026]

Providing information at the appropriate level of detail

10.17 The level of detail provided in the financial statements is a matter of professional judgment. A decision on the level of detail would balance the need to meet the identified financial statement objectives with the need for understandable financial statements for the users. The level of detail would also reflect the highly aggregated nature of financial statements. When deciding on the level of detail, both collectively and for individual items, transactions and other events, an entity would consider the information's usefulness for accountability purposes.

Giving higher profile to matters of importance

10.18 Important matters that have occurred in the accounting period would be emphasized in presentation decisions. Giving higher profile to such matters:

(a) provides useful information for accountability purposes; and

(b) allows users to focus on them rather than be distracted by less important matters.

This presentation concept reinforces the consideration of materiality when preparing financial statements.

10.19 Entities will generally have established formats and ordering of information in their notes and schedules to their financial statements. Often the order of notes and schedules will mirror the order used on the face of the financial statements for users' ease of reference. Nevertheless, it is crucial that important matters that have occurred in the period not be unintentionally de-emphasized or obscured because of established disclosure practices. Identifying important matters in the period will require professional judgment. The nature and magnitude of such important matters may determine the most appropriate way to emphasize them through presentation decisions. Only significant accounting policies relevant to understanding the financial statements would be identified and disclosed.

Entity-specific information

10.20 An entity-specific context of information allows the entity to present its specific financial picture to users. Preparers are to avoid generalities and boilerplate information that does not provide appropriate entity-specific information.

Disclosure is not recognition

10.21 *Presentation Concept 3: Disclosure in the notes and schedules to the financial statements is not a substitute for the proper recognition and/or measurement of an item, transaction or other event.* [APRIL 2026]

10.22 The disclosures that supplement, clarify and explain the items, transactions and other events given financial statement recognition are fundamental to meeting the accountability objective and portraying a cohesive financial picture of an entity's economic activities. A fundamental task of the notes and schedules is to contribute to the full disclosure and a faithful representation of items, transactions and other events that are recognized and reported on the face of the financial statements, either individually or within totals. Notes and schedules cannot, however, be used as a substitute for the proper recognition and/or measurement of an item, transaction or other event. Not recognizing, or inappropriately recognizing or measuring, an item, transaction or other event is not rectified either by disclosure of accounting policies used or disclosure in notes or schedules.

10.23 The purpose of the notes and schedules is to provide a description of:

(a) items, transactions and other events recognized and reported on the face of the financial statements, either as separate line items or within totals;

(b) unrecognized commitments, claims against the entity and rights of the entity;

(c) accounting policies, methods, assumptions and judgments used in recognizing and measuring items, transactions and other events;

(d) risks and uncertainties that could affect the entity's financial position or periodic financial performance as specified in the various standards in the PSA Handbook; and

(e) any critical information about the entity that is material and necessary for users to evaluate the financial position and periodic financial performance of the entity for accountability purposes.

The core requirements and supplemental information

10.24 GAAP set out in individual standards and guidelines of the PSA Handbook represents the core requirements for all public sector entities that prepare financial statements in accordance with the PSA Handbook. Entities may supplement the core financial statement requirements with additional information in the notes and schedules as long as it:

(a) does not conflict with the core requirements;

(b) does not confuse or hide the meaning of the information included in the financial statements to meet the core requirements;

(c) is consistent with the Conceptual Framework; and

(d) does not reduce the accountability value of the resulting financial statements.

Presentation choices

10.25 *Presentation Concept 4: Presentation choices are made within the context of whether they add to or support the accountability value provided by the set of financial statements. Considerations include:*

(a) *the appropriateness of aggregating like items, transactions and other events to make them more understandable;*

(b) *the complexity, uncertainty and risk in relation to items, transactions and other events, and identifying the appropriate presentation of such matters, with the emphasis on providing understandable information;*

(c) *whether the information has a clear and demonstrable relationship to:*

  (i) *information recognized and reported on the face of the statements, either individually or within totals; or*

  (ii) *information disclosed elsewhere in the notes and schedules,*

  and how to present those relationships;

(d) *the nature, extent, organization and value of all disclosures in the notes and schedules at each reporting date and their ongoing impact on understandability of the entity's financial position and periodic financial performance; and*

(e) *the possible trade-off between adhering to presentation concepts and maximizing usefulness for users.* [APRIL 2026]

Aggregation of financial information

10.26 Preparing financial statements for all but the simplest and smallest entities requires simplifying, condensing and aggregating data into meaningful line items, subtotals and totals. Nearly all reporting entities would find it excessive, difficult and expensive to provide information about every detail of their activities during an accounting period.

10.27 Conversely, too high a level of aggregation would result in the loss of useful information. For example, presenting only line items labelled "total assets" would not be helpful in differentiating the characteristics of an entity's assets. As a result, the concept of aggregation would also be applied in terms of the appropriateness of disaggregation, where more detail may be required to understand the entity's financial position and periodic financial performance.

Complex items, transactions and other events

10.28 To meet the accountability objective, financial statements are to be as understandable as possible. Part of presenting information in an understandable manner is stating information as simply as possible for users, while still meeting the qualitative characteristics and related considerations and the accountability objective. This understandability imperative is not to be interpreted as a reason to not provide relevant information just because it is complex. Certain information cannot be simplified. In such circumstances a financial expert might be required to interpret the information for users.

10.29 The most challenging aspects of effective presentation arise in relation to complex items, transactions and other events, and include:

(a) communicating the judgments and estimates that were made in preparing the financial statements;

(b) providing a clear and complete picture of economic resources and economic obligations not recognized in the financial statements; and

(c) conveying the risks and uncertainties associated with an entity.

Demonstrating the relationship between different pieces of information

10.30 Linking related pieces of information increases the understandability of financial statements. For example, providing cross-references to the various notes that relate to assets pledged as security allows readers to see a more complete picture of this aspect of the entity's finances.

Nature, extent, organization and value of disclosures

10.31 An entity would not simply repeat what was disclosed in the prior periods' financial statements without considering the continuing relevance of those disclosures for accountability purposes. Circumstances change; what was relevant in the past may no longer be relevant. The nature, extent, organization and value of all disclosures would be reconsidered at each reporting date. The following are some factors to consider:

(a) unnecessary duplication of information; and

(b) changing the way information is presented in the financial statements from period to period without considering that such changes may make it difficult for users to compare that information with other entities or between reporting periods.

10.32 To the extent allowed by the financial statement presentation standard, presentation choices are evaluated in terms of whether they add to or support the accountability value provided by the set of financial statements. The understandability of the presentation alternatives would comprise part of the evaluation. The risks of omitting information and the effects on accountability would also be considered in presentation decisions.

10.33 Sufficient information, in terms of both scope and depth, required to meet the accountability objective of financial statements would be presented to ensure a complete and unbiased understanding of the entity's financial position and periodic financial performance. For example, the more uncertainty associated with an amount on the face of the financial statements, the more disclosures that are usually needed.

10.34 Excessive detail, vague or overly technical descriptions, and complex presentation formats would be avoided as they can result in confusion and misinterpretation.

Trade-offs

10.35 An entity might need to make a trade-off between presentation concepts when preparing its financial statements. For example, while tailoring disclosures to an entity's own circumstances can help to ensure that information is relevant and easier for users of the financial statements to understand, it might reduce comparability and consistency between entities and periods. Professional judgment is important when applying these concepts to maximize the usefulness of the information for financial statement users.

Presentation techniques

10.36 Appropriate financial statement formats, terminology and classifications ensure that information is presented clearly and is understandable.

10.37 Consideration would be given to the effectiveness of various possible structures, such as tables, lists, graphs, headings, numbering, as well as the form and content of narrative descriptions and explanations.

10.38 Consideration would be given to using plain language. Plain language is writing designed to ensure the reader understands as quickly, easily, and completely as possible. Documents written in plain language are easier to read and understand. Plain language is concise, clear, direct and tailored to the circumstances. Jargon and overly technical terms would be avoided wherever possible.

10.39 Consideration would be given to:

(a) linking related information by using consistent headings, presentation order and/or other methods appropriate to the relationship and type(s) of information;

(b) referencing related information in other parts of the entity's financial reports;

(c) cross-referencing and making clear the relationships between items, transactions and other events recognized or disclosed in the financial statements. Such cross-references would need to:

  (i) enhance the accountability value of the financial statements;

  (ii) promote the understandability of the entity's financial position and periodic financial performance; and

  (iii) meet the qualitative characteristics of information to be presented in financial statements; and

(d) using emerging technology to enhance presentation and access to the financial statements.

GLOSSARY

TERM	DEFINITION
Asset	A present **economic resource** controlled by an entity as a result of a past event(s) and from which future economic benefit is **expected** to be obtained.
Derecognition	The removal of all or part of a previously recognized item from the financial statements.
Economic obligation	Represents a duty or responsibility to others that an entity has no practical ability to avoid. It would be settled through the future sacrifice of economic benefits. Sacrificing economic benefits involves a future transfer or use of economic resources.
Economic resource	Represents value because it enables an entity to meet its objectives. Without an economic resource, future economic benefits cannot be obtained.
Expected	Refers to that which can reasonably be anticipated or believed based on available evidence or logic but is neither certain nor proved. No numerical value quantifies what an expected threshold would be interpreted to mean in all instances. Quantitative and qualitative evidence and professional judgement is considered when deciding if future economic benefits associated with an item are expected to be obtained or sacrificed.
Expense (including a loss)	A decrease in **assets** or increase in **liabilities** in the accounting period that results in a decrease in net assets or an increase in net liabilities.
Financial condition	A broad, complex concept with short- and long-term implications that describes an entity's financial health in the context of the overall economic and financial environment. Financial condition is an entity's financial health as assessed by its ability to meet its existing financial obligations, in respect of its service commitments to the public and its financial commitments to creditors, employees and others. Financial position is only one factor in determining an entity's financial condition.
Financial obligations	A category of **economic obligations** to be settled through the use of financial resources.
Financial performance	A measure of an entity's accountability for the results of its policies, operations and activities quantified for an identified period in financial terms. The nature of financial performance is a function of what the entity is held accountable for accomplishing, in financial terms, in the identified period. Multiple perspectives of financial performance considered together provide a comprehensive picture of an entity's achievement in relation

	to the multiple accountabilities expected of it. Surplus or deficit and cash flow, as reported in financial statements, are financial performance measures.
Financial position	A measure of an entity's financial condition as at a specified date. It is a function of the economic resources and obligations an entity is accountable for managing in meeting the entity's public interest objectives.
Financial resources	A category of **economic resources** that can be used to discharge existing financial obligations or can be directly applied in spending.
Liability	A present **economic obligation** of an entity to others as a result of a past event(s), the settlement of which is **expected** to result in a future sacrifice of economic benefit.
Measurement	The result or process of determining the monetary amounts at which individual items, transactions or other events are to be recognized in the financial statements.
Non-financial obligations	A category of **economic obligations** that are not financial obligations.
Non-financial resources	A category of **economic resources** that are not financial resources.
Presentation	How an entity communicates information in its financial statements to meet the financial reporting objective and the specific financial statement objectives. It involves the selection, location and organization of information. Presentation includes: • the recognition and reporting of items, transactions and other events on the face of the financial statements either individually or within totals; and • disclosure in the notes and schedules to the financial statements.
Professional judgment	Judgment exercised by an experienced and knowledgeable person with due care, objectivity and integrity within a framework of professional standards.
Recognition	The inclusion of an item, transaction or other event within one or more individual statements. Recognition does not mean disclosure in the notes and schedules to the financial statements.
Revenue (including a gain)	An increase in **assets** or decrease in **liabilities** in the accounting period that results in an increase in net assets or decrease in net liabilities.
Service capacity	The capacity to serve the public. For financial statement purposes, only those aspects of service capacity that arise from past transactions and other events that create and/or change measurable economic resources and economic obligations can be reported in financial statements.

Footnotes

* The Conceptual Framework amended October 2023.

1. Public sector accounting standards identify the information required for fair presentation in financial statements. Chapter 10 references fair presentation and it is further explained in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

2. Bold terms are defined in the glossary.

3. Reference in the Conceptual Framework to requirements for PSAB to explain decisions in the Basis for Conclusions of a standard applies equally to decisions made in issuing any primary source of GAAP in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03.

4. General purpose financial statements are called "financial statements" for the remainder of the Conceptual Framework.

5. In accordance with GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.05, when the primary sources of GAAP do not deal with the accounting or reporting of transactions or other events encountered by a public sector entity, or additional guidance is needed to apply a primary source to specific circumstances, the entity is required to adopt accounting policies and disclosures that are consistent with the primary sources of GAAP and this Conceptual Framework.

6. Financial reporting is discussed in Chapter 3.

7. Public sector entities are defined in the Introduction to the Public Sector Accounting Handbook ("the Introduction"). Definitions for the types of public sector entities are also set out in the Introduction.

8. The going concern concept is discussed further in Chapter 9, "Recognition and Measurement in Financial Statements."

9. The primary users are referred to as "users" for the remainder of the Conceptual Framework.

10. Financial reports include financial statements and other reports outside of the financial statements. See Figure 3.1. Only certain aspects of an entity's accountability for its financial condition, financial performance, and the extent to which an entity performed in accordance with its financial authorities and its plan can be shown in financial statements.

11. "Sustainability" is a broad term and includes many aspects, such as environmental, social and economic. Financial sustainability is a component of economic sustainability. Financial sustainability describes an entity's ability to manage its financial and service commitments and its debt burden. It also describes how its debt burden could affect its service provision.

12. Chapter 5 builds on Chapter 4 and assumes the concepts in Chapters 1-4.

13. The "asset" definition has conceptual primacy in that all other elements are defined in terms of assets. That is, the definition of "liability" refers to the sacrifice of future economic benefits (embodied in current and future assets) and "revenue" and "expense" are defined in terms of changes in assets and liabilities.

14. For example: (1) in relation to economic resources that are interests in other entities in GOVERNMENT REPORTING ENTITY, Section PS 1300, and INTERESTS IN PARTNERSHIPS, Section PS 3060; (2) in relation to other economic resources in ASSETS, Section PS 3210, and PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160.

15. Consistent with paragraph PS 1300.09.

16. The phrase "or equivalent" is used in relation to sovereign powers or rights to acknowledge that only two types of government are identified as having sovereign powers or rights in the Canadian Constitution. However, abilities equivalent to sovereign powers or rights may be exercised by other governments or their components and organizations through delegation/devolution from a government assigned those powers or rights in the Constitution or, for Indigenous governments, through their Indigenous community rights. For the remainder of the Conceptual Framework, when the phrases "powers, rights or responsibilities" or "powers and rights" or "power or right" are used, they are intended to mean sovereign – or equivalent – powers and rights as described here. In contrast with Chapter 5 in which the term "power" is used in the context of sovereign or equivalent powers, the term "power" is often used in the PSA Handbook to mean an ability to do something. For example, the power to control mentioned in GOVERNMENT REPORTING ENTITY, Section PS 1300, is not a sovereign or equivalent power or right as described in Chapter 5. For the purposes of paragraph PS 1300.09, control has already been acquired and the controlling entity has the power (or ability) to control its entities. The controlling entity may choose to exercise or not exercise that existing control. The "power to contract" phrase used in the PSA Handbook definitions of government organizations, government business enterprises, government not-for-profit organizations, other government organizations and business partnerships is not considered a sovereign or equivalent power or right as described in Chapter 5. Instead, it refers to the power or ability of the entity to contract in its own name.

17. Chapter 6 builds on Chapter 5 and assumes the concepts in Chapters 1-5.

18. From this point forward, the "plan" is referred to as the "budget".

19. Figure 3.1 in Chapter 3 shows that reports outside of financial statements are necessary to fully meet the accountability objective and the three broad accountabilities. Figure 6.1 only shows how financial statements help to meet these.

20. This applies only to the aspects of an entity's service capacity that can be reflected in financial statements.

21. FINANCIAL STATEMENT PRESENTATION, Section PS 1202 sets out guidance for determining the budget amounts presented for comparison purposes in financial statements when the approved budget is not for the same reporting entity (scope) or prepared on the same basis (accounting basis, principles, and classifications) as the financial statements. Section PS 1202 also provides guidance in relation to what is meant by “approved”.

22. A new board is considered to exist when a majority of members are new to the board. Re-appointment of a majority of existing members is not considered to comprise a new board. Paragraphs PS 1202.219-.220 provide insight and guidance as to the rare circumstances in which there is new governance that approves a new budget.

23. Disclosing non-compliance with financial authorities is a separate requirement from the need to consider relevant legislation in determining the presentation of items, transactions and other events of an entity. For example, environmental legislation may create economic obligations that require recognition or disclosure.

24. The concept of materiality is discussed in Chapter 7 and professional judgment is defined in the Glossary.

25. Chapter 7 builds on Chapter 6 and assumes the concepts in Chapters 1-6.

26. Examples of appropriate processes for developing an estimate are the measurement techniques included in Chapter 9, "Recognition and Measurement in Financial Statements."

27. Presentation choices are discussed in Chapter 10.

28. Chapter 8 builds on Chapter 7 and assumes the concepts in Chapters 1-7.

29. Not all revenues and expenses of a period would be recognized in periodic surplus or deficit. Chapter 6 explains, in paragraph 6.25:

> However, not all changes in an entity's financial position are necessarily included in surplus or deficit. Certain circumstances, as identified and approved by PSAB in standards, pursuant to the due process, may result in different accountability

explanations for some aspects of the change in financial position. For example, one part of financial performance requiring separate accountability, and therefore reporting outside of surplus or deficit, consists of those changes that relate to certain unrealized remeasurements. Such remeasurements are unrealized, relate to changes in economic conditions not directly controlled by the entity, and are less likely to be replicable. This separation supports improved reporting on accountability and stewardship of resources. The Board may require a part of financial performance to be presented outside of surplus or deficit if such presentation better contributes to meeting the accountability objective.

30. A "performance obligation" is defined in REVENUE, paragraph PS 3400.05(b).

31. Chapter 9 builds on Chapter 8 and assumes the concepts in Chapters 1-8.

32. See further details about disclosure in Chapter 10, paragraph 10.24.

33. Realization uncertainty relates only to items (i.e., assets and liabilities, not transactions or other events), as expectation of an inflow or sacrifice of future economic benefits is included in the asset and liability definitions.

34. Care must be taken to distinguish between re-estimation for subsequent measurement and derecognition of part of an already recognized item.

35. Fair value is a market-based measurement, not an entity-specific measurement, and that fair value reflects current market conditions (which reflect market participants', not the entity's, current expectations about future market conditions).

36. Chapter 10 builds on Chapter 9 and assumes the concepts in Chapters 1-9.

37. The objective of financial reporting is to provide information for accountability purposes, as explained in Chapter 3.

38. See Chapter 3.

39. See Chapter 6.

40. The objective of financial reporting is to provide information for accountability purposes, as explained in Chapter 3.

41. The financial statement objectives, described in Chapter 6, relate to: (a) the scope of financial statements; (b) reporting financial position; (c) reporting changes in financial position; (d) comparing the actual performance to that projected in the budget; (d) disclosing non-compliance with financial authorities; and (e) disclosing risks and uncertainties.

42. The qualitative characteristics outlined in Chapter 7 include: (a) relevance; (b) faithful representation; (c) verifiability; (d) comparability; (e) understandability; and (f) timeliness. The related considerations presented in Chapter 7 include: (a) benefit versus cost; (b) materiality; and (c) prudence.

43. Cohesiveness is explained in paragraph 10.08.
