

SECTION PS 3300

contingent liabilities

SUPPLEMENT

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

PURPOSE AND SCOPE

- .01 This Section:
- (a) defines and establishes standards on how to account for and report contingent liabilities in government financial statements; but
 - (b) does not include standards for specific types of contingent liabilities, which are dealt with in individual CPA Canada Public Sector Accounting Handbook Sections.

DEFINITION

- .03 **Contingent liabilities** are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the government's control occurs or fails to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability.

Existing condition or situation

- .07 For a contingent liability to be present there must be an existing condition or situation (event) at the financial statement date that indicates that a government may have a liability. The existing condition or situation could be, for example, an existing loan guarantee or an ongoing legal case.
- .08 A government may be involved in a lawsuit (the existing condition or situation), however, it may not be known with certainty whether this event will ultimately result in a liability. It is only the future event (the settlement of the suit) that will confirm that the government has a liability.

Confirming future event

- .10 For a contingent liability to exist there must also be an expected confirming future event(s) that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a government has a liability at the financial statement date. The confirming future event does not create a liability — it only proves or disproves its existence at the financial statement date.
- .11 The future confirming event cannot be wholly within the control of the reporting government. Where a government has guaranteed a loan of another party, the future confirming event (default) is not within the control of that government.

RECOGNITION

- .17 A condition or situation may exist at the financial statement date; however, it is unlikely that a future event will confirm the existence of a liability. In this case, a contingent liability would not be accrued. A government may, for example, provide building inspections, but there is only a remote possibility that at some time in the future it could be found that a building inspection was carried out in a negligent manner. While there is a possibility that a government could be responsible in the future, given what is known at the financial statement date, the probability of a future confirming event happening is unlikely.
- .18 A condition or situation may exist at the financial statement date, but it is not determinable as to whether a liability exists. In this case, a contingent liability would not be accrued. A government may, for example, be involved in a lawsuit where the outcome of the claim cannot be determined as there is no clear evidence or precedent supporting the outcome one way or the other. While there is a possibility that the government could be responsible, there is no evidence that a liability existed at the financial statement date.

PRESENTATION

- .26 In assessing the government's financial position and results, it is important to understand its risks and exposure to contingent liabilities. Regardless of whether contingent liabilities should be accrued, as a minimum, knowledge of the existence, nature and extent of these types of obligations is warranted because they indicate a possible claim on the economic resources of the government. The relevance of such information to the decision-making process arguably outweighs the inherent uncertainty.
- .30 Disclosure of the extent of a contingent liability includes the government's best estimate and a range of possible amounts, unless it would have an adverse effect on the outcome. A financial statement user may not find disclosure of a broad range of amounts, which may extend from the minimum possible amount to the maximum possible amount, as useful as a narrower range that comprises what is reasonable.

- .32 The level of detail disclosed by a government reflects the highly aggregated nature of financial statements. When deciding the level of detail to disclose, governments consider the usefulness of the information to assessing the nature and extent of a government's contingent liabilities. In some cases, it may be useful to group similar items together. The level of disclosure also considers the sensitivity of the information.

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