

# Assets — Basis for Conclusions

## Section PS 3210

### Foreword

CPA Canada Public Sector Accounting Handbook Revisions Release No. 43, issued in June 2015, contained a new standard, ASSETS, Section PS 3210.

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale followed by PSAB when developing standards.

This document has been prepared by staff of PSAB. It does not form part of the CPA Canada Public Sector Accounting (PSA) Handbook nor is it part of public sector generally accepted accounting principles (GAAP). Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

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### BACKGROUND

- The Public Sector Accounting Board (PSAB) initiated a project to develop a general application standard on assets, similar to LIABILITIES, Section PS 3200, that would:
  - provide additional guidance on the various components of the assets definition (economic resources, control, past transactions or events, and future economic benefits); and
  - establish general disclosure standards for assets.
- Changing the existing definition of assets and the general recognition criteria set out in the FINANCIAL STATEMENT CONCEPTS, Section PS 1000, was outside the scope of the project. These items are being reviewed as part of an ongoing Conceptual Framework project. PSAB decided not to stop the progress of this project pending completion of the Conceptual Framework project.

### APPLICATION

- A general application standard is contrasted with a specific application standard for an individual financial statement item. Both form part of generally accepted accounting principles but differ in the breadth of their applicability. A general application standard operationalizes in a broad fashion the existing conceptual framework. A general application standard is useful when a specific application standard does not exist and GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, requires a chosen accounting treatment to be consistent with the conceptual framework. A general application standard may also be useful when a specific application standard exists; however, it does not directly address the financial statement issue at hand.

### CONTROL

- Section PS 3210 provides three essential characteristics of control:

- (a) an ability to benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows;
- (b) an ability to deny or regulate access to those benefits by others; and
- (c) exposure to the risks associated with the economic resource.

**Ability to benefit from economic resources**

- 5 FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.38, states that: "government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others." PSAB removed the term "directly" from the guidance on control in order to eliminate confusion as to who benefits directly. This is because both the public and the public sector entity benefit but in a different way. For example, in the case of a bus, the benefit to the public is the transportation service, while the benefit to the public sector entity is the ability to meet its objectives of service provision.
- 6 PSAB is of the view that this improvement would not affect the robustness of the guidance on control as all three characteristics of control would have to be satisfied in order to have control of the economic resource. Further, PSAB concluded that this change would not affect the standard on government transfers. Section PS 3210 provides general guidance on assets and does not override any other standards in the CPA Canada Public Sector Accounting (PSA) Handbook. Consequently, GOVERNMENT TRANSFERS, Section PS 3410, should be consulted to determine how to account for transfer payments.

**Ability to deny or regulate access**

- 7 The Exposure Draft illustrated the concept of the ability to deny or regulate access to the future economic benefits with an example. It stated that: "an entity controlling a bus has the ability to deny or regulate access to the transportation services." One respondent expressed a concern that the example was not clear as it could be interpreted in two different ways: as ability to deny or regulate access to the users of the transportation services; or as ability to deny or regulate access to other entities so that they cannot obtain the benefit of providing transportation services using the economic resource (the bus). The objective of the guidance is to convey that control entails the ability to deny or regulate access to the future economic benefits by others. This means having an ability to prevent other parties, regardless of who they are, from accessing the economic benefit. However, PSAB agreed that the example provided may not have been clear enough because it may be interpreted as an ability to deny or regulate access to any transportation services, not necessarily the transportation services relating to the bus. PSAB amended the guidance to clarify that the transportation services are related to the bus.

**Exposure to risk**

- 8 The related Statement of Principles proposed that exposure to risk associated with the economic resource be added to the criteria of control of an asset. This aspect was not previously included in the guidance on control in the PSA Handbook nor did other standard setters include this as a necessary criterion of control. However, after reviewing other pronouncements in the PSA Handbook that discuss risks in the context of control (GOVERNMENT REPORTING ENTITY, Section PS 1300, and LEASED TANGIBLE CAPITAL ASSETS, PSG-2), it was concluded that risk is very much a part of the implications of having control of an asset. For example, a public sector entity may hold land that may have a future environmental cleanup cost associated with it. Another example would be an investment, the value of which may decline and result in a loss.
- 9 Respondents to the Statement of Principles did not raise any issues with respect to the addition of the risk concept and generally most respondents to the Exposure Draft supported the guidance on control from this perspective. However, one respondent questioned whether this criterion can always be satisfied. Another respondent asked PSAB to consider whether exposure to the risks associated with the economic resource is a necessary requirement for control rather than an indicator of control and how this requirement should be applied. Yet another respondent specifically encouraged the inclusion of the "risk and reward concept" in the guidance on control.
- 10 PSAB is of the view that exposure to risks is a necessary characteristic of control rather than an indicator. Having risk as an indicator would suggest that risk is there only sometimes but not always. However, PSAB concluded that an entity cannot have an asset without having some degree of risk associated with the asset. The assessment of whether sufficient exposure to risk exists is a matter of professional judgment and should be considered on a case-by-case basis, giving consideration to guidance contained in other standards.

**Other improvements**

- 11 Respondents also suggested additional improvements to the guidance on control. This includes clarifying that authorization of a transfer (rather than a transfer program), in addition to meeting the eligibility criteria, comprise a past event giving rise to control of an economic resource. PSAB agreed and amended the guidance accordingly.
- 12 Most respondents agreed that external restrictions on the economic resources do not negate control. Respondents suggested the standard should clearly define external restrictions, provide further examples of restricted assets and illustrate the concept of restricted assets with the concept of risk / loss. PSAB improved the guidance on restricted assets by further clarifying what is meant by external restrictions. As the purpose of this standard is to provide general guidance and an example of restriction has already been provided, no further examples are included. The concept of risk is already illustrated in the guidance on control.

## **DISCLOSURE**

- 13 Most respondents agreed with disclosure of types of assets (i.e., major asset categories), which are not recognized. However, some respondents asked PSAB to clarify what is meant by "types of assets". Examples were provided in the Issues Paper accompanying the Exposure Draft as the PSA Handbook is not meant to be prescriptive. However, given that several respondents found the disclosure requirements unclear, the standard provides further guidance.
- 14 There are two possible reasons why an asset would not be recognized: an appropriate basis of measurement and a reasonable estimate of the amount involved cannot be made; or other Handbook Sections prohibit recognition. Three respondents suggested that disclosure requirements would be more useful if they included a requirement to disclose reasons for not recognizing an asset. PSAB is of the view that disclosing reasons for not recognizing an asset in cases where the PSA Handbook specifically prohibits recognition does not add value. However, disclosing reasons for not recognizing an asset because of measurement issues may provide users with relevant and useful information. PSAB was mindful of stakeholders concerns raised at the Statement of Principles stage with respect to the amount of work involved in preparing these disclosures. PSAB is of the view that these disclosure requirements would not be time consuming, result in improved information and be more in line with those included in LIABILITIES, Section PS 3200.

## **OTHER MATTERS**

- 15 One respondent asked PSAB to consider adding the term "service potential" to the definition of assets and to the guidance on future economic benefits. Modifications to the assets definition are not in scope of this project. Further, the proposed guidance on future economic benefits already captures the concept of service potential by including "the capacity to provide goods and services". Throughout the project, the task force considered whether "service potential" should be explicitly defined. However, PSAB agreed with the task force's recommendation not to do so but rather to explain what is meant by the capacity to provide goods and services.
- 16 Several respondents suggested that it would have been helpful if the project addressed the accounting for intangibles, inherited natural resources and Crown lands, and art and historic treasures or added guidance on specific types of assets. As indicated in the Statement of Principles and the Issues Paper supporting the Exposure Draft, these items were outside the scope of the project.