

**public sector accounting and auditing handbook
highlight summary no. 6
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HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE).

Introduction to Public Sector Accounting and Auditing Recommendations

The Introduction has been revised to provide guidance to government organizations as to the accounting Recommendations they should apply in preparing their own financial statements. The new Introduction:

- narrows the definition of "public sector" to governments and the organizations within the government financial reporting entity, as well as school boards;
- defines three categories of government organizations — government business enterprises, government business-type organizations and government not-for-profit organizations;
- directs these government organizations to follow the Accounting Recommendations in the CICA HANDBOOK, unless otherwise directed to specific Accounting Recommendations of PSAAB; and
- allows government organizations that do not meet any of the definitions established to apply either the Public Sector Accounting Recommendations or the Accounting Recommendations in the CICA HANDBOOK, selecting the basis that is most appropriate to their objectives and circumstances and applying it consistently.

General standards of financial statement presentation — federal, provincial & territorial governments, Section PS 1500

As a result of the new Recommendations on tangible capital assets, revisions to this Section were made to allow for two reporting formats that accommodate both the expenditure and expense bases of accounting. Recommendations and guidance dealing with the existing expenditure basis reporting format were not changed in substance; however, new Recommendations and guidance were added that deal with:

- defining expenses;
- recognizing expenses;
- the new statement of tangible capital assets;
- reporting components of net debt; and
- transitional provisions for moving to the expense basis of accounting.

To maintain comparability between the two reporting formats, the standards recommend that all government financial statements report net debt as the primary measure of financial position and the change in net debt as the measure of the annual surplus or deficit.

Accounting changes, Section PS 2120

This new Section deals with the accounting treatment of (a) a change in accounting policy, (b) a change in accounting estimate, and (c) a correction of an error relating to prior period financial statements.

The main features of the new Recommendations are:

- A change in accounting policy arising from a choice from two or more appropriate accounting policies should be applied retroactively. When the change in accounting policy occurred to conform to new Recommendations or to adopt the Recommendations for the first time, the new Recommendations may be applied retroactively or prospectively.
- A change in an accounting estimate should be accounted for in the period of change and applicable future periods, if any.
- A correction of an error that impairs the fairness of financial statements of prior periods should be reported retroactively.
- Financial statements should disclose adequate information about the accounting changes.

The new Recommendations apply to federal, provincial, territorial and local governments.

Tangible capital assets, Section PS 3150

This new Section describes how governments should account for and report their tangible capital assets. The key Recommendations deal with:

- defining an asset and a tangible capital asset in the government context;
- recognizing tangible capital assets at cost on the statement of tangible capital assets;
- measurement issues including amortization, betterments, write-downs and disposals;
- disclosure; and
- transitional provisions for recognizing tangible capital assets for the first time.

The new Recommendations apply to federal, provincial, and territorial governments.

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