

Narrow-scope Amendments, GAAP Hierarchy and GAAP Designation of PSA Handbook Appendices — Basis for Conclusions

FOREWORD

CPA Canada Public Sector Accounting (PSA) Handbook Revisions Release No. 60, issued in February 2025, contained narrow-scope amendments to clarify the generally accepted accounting principles (GAAP) designation of the application guidance appendices to four PSA Handbook standards. These were :

- Appendix A to REVENUE, Section PS 3400;
- Appendix B to GOVERNMENT TRANSFERS, Section PS 3410;
- Appendix A to FINANCIAL INSTRUMENTS, Section PS 3450; and
- Appendix A to DISCLOSURE OF ALLOCATED EXPENSES BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4270.

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 PSAB followed when developing standards.

This document has been prepared by staff of PSAB. It does not form part of the PSA Handbook nor is it part of public sector GAAP. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

February 2025

TABLE OF CONTENTS

	Paragraph
Introduction	BC.01-BC.03
Intended outcomes and expected effects	BC.04
GAAP designation of appendices	BC.05-BC.14
Responses to the February 2024 Exposure Draft	BC.15-BC.17

INTRODUCTION

- BC.01 This Basis for Conclusions summarizes the considerations PSAB made in approving as final the PSA Handbook amendments exposed for comment in the February 2024 Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices."
- BC.02 Respondents to the Exposure Draft supported the elevated GAAP designation of the four PSA Handbook appendices and related effective date. So, only minor changes have been made in response to feedback received.
- BC.03 The amendments apply to all public sector entities applying the standards referenced in this Basis for Conclusions.

INTENDED OUTCOMES AND EXPECTED EFFECTS

- BC.04 The following changes are important for maintaining the quality of the PSA Handbook and users' understanding of its requirements:
- (a) The classification and renumbering of appendices PSAB approved in December 2022 as part of the 2022-2023 annual improvements and included in Revisions Release No. 60 represent a structural aspect of implementing the Board's International Strategy.
 - (b) These changes provide clarity about the GAAP designation of PSA Handbook appendices, which is important for applying the standards and guidelines.

GAAP DESIGNATION OF APPENDICES

- BC.05 As of December 2024, the PSA Handbook includes 64 appendices across all standards and guidelines; 14 of those were issued in October 2023 as part of FINANCIAL STATEMENT PRESENTATION, Section PS 1202. PSAB approved them at that time to conform to the GAAP designation proposals in the Exposure Draft. The remaining 50 appendices were the subject of proposals in the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards."
- BC.06 In terms of the GAAP level assigned to appendices, superseded GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.16, classified all appendices as illustrative. This meant that all appendices were designated as level (iii) GAAP as defined by the hierarchy of primary sources of GAAP set out in paragraph PS 1150.03(d):
- Primary sources of GAAP** are, in descending order of authority:
- (i) standards in Sections PS 1202-PS 3510;
 - (ii) Public Sector Guidelines; and
 - (iii) appendices and illustrative material of those pronouncements described in (i)-(ii) above.
- BC.07 The Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards," proposed to update the classification and numbering of appendices existing in the PSA Handbook at that time to align with the classification and numbering used in the International Public Sector Accounting Standards (IPSAS). This change was proposed to ensure consistent classification and numbering of similar categories of guidance should PSAB adapt IPSAS principles set out in appendices in developing Canadian standards in the future. The Board clarified that the changes to the classification and numbering in appendices were editorial only and did not change the application of the PSA Handbook appendices nor did they incorporate material from IPSAS appendices.
- BC.08 In the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards," PSAB had also proposed to classify appendices as application guidance (AG) or illustrative examples (IE), with appropriate renumbering of the paragraphs therein as AG or IE. These changes were editorial. Respondents to the "2022-2023 Annual Improvements" generally supported the classification and renumbering of appendices. At its December 2022 meeting, the Board approved these changes as part of finalizing the annual improvements for inclusion in the PSA Handbook. These changes were not issued in the PSA Handbook with other annual improvements from that Exposure Draft in the April 2023 and February 2024 PSA Handbook Releases. The Board requested that they instead be issued at the same time as any changes to the GAAP designation of appendices resulting from the February 2024 Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices." The changes, approved in December 2022, were summarized in Appendix A to that Exposure Draft.
- BC.09 In the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards," PSAB had also proposed minor amendments to Section PS 1150 to clarify the level of GAAP that each type of appendix would be assigned, with some proposed to move to level (i) GAAP. Respondents to the "2022-2023 Annual Improvements" expressed concern regarding the change to the GAAP level designation for some appendices, indicating that:
- (a) identifying some application guidance appendices as integral to a standard and assigning them as level (i) GAAP (see paragraph PS 1150.03(d)(i)), while other application guidance appendices would remain as level (iii) GAAP was confusing; and
 - (b) elevating some appendices from level (iii) to level (i) GAAP might be a change in practice, so they might not meet the annual improvement definition.
- BC.10 PSAB agreed with the concerns, considered the issues raised and issued the Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices," in February 2024 to address them.
- BC.11 In March 2023, PSAB approved the appendices to Section PS 1202. The application guidance appendix was identified as integral to the standard and designated as level (i) GAAP, consistent with the standard to which it is integral. All other appendices, including decision trees, illustrative examples and illustrative financial statements, were designated as illustrative and level (iii) GAAP. Appendix A to the Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices," described the classification and renumbering that PSAB approved for the 50 appendices of various standards and Guidelines in December 2022. That Exposure Draft applied the principles, which the Board approved for Section PS 1202, to the four appendices that required confirmation as integral to a standard and that required a change in GAAP designation from level (iii) GAAP to level (i):
- (a) Appendix A to Section PS 3400;
 - (b) Appendix B to Section PS 3410;
 - (c) Appendix A to Section PS 3450; and
 - (d) Appendix A to Section PS 4270.
- BC.12 Of the four appendices addressed in the Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices," only Appendix B to Section PS 3410 was not already identified as integral to the standard. However, PSAB's intent in approving this guidance was that it was integral to the standard. Superseded Section PS 3410 had included guidance for specific types of transfers in the main body of the standard. For the revised Section PS

3410 (i.e., the current standard), the Board chose to include the key principles in the main body of the standard and the application guidance for particular types of transfers in an appendix.

- BC.13 The missing piece was clarifying what "integral to the standard" means. The Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices," clarified that "integral to the standard" means that any application guidance appendices are level (i) GAAP. All existing application guidance appendices were evaluated to ascertain if this conclusion was appropriate and PSAB concluded it was. Application guidance appendices are more than just illustrative; they assist in understanding and applying the principles in the main body of a standard, often to specific types of the item, transaction or other event that is the subject of the standard. So, the Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices," proposed that the text in Section PS 1150 indicating that all appendices are illustrative be amended to clarify the GAAP status of application guidance appendices.
- BC.14 One of the four appendices whose authority under GAAP was clarified and explicitly elevated to level (i) was Appendix A to Section PS 4270. In 2022, PSAB chose Option 2 as its approach to implementing its Government Not-for-Profit (GNFP) Strategy. "Option 2 – Public Sector Accounting Standards (PSAS) incorporating the PS 4200 series with potential customizations" is described in Consultation Paper II, "PSAB's Government Not-for-Profit Strategy." Section PS 4270 will be considered as a part of implementing the GNFP Strategy. In the meantime, the Board decided that updating the GAAP designation of Appendix A to Section PS 4270, consistent with other appendices in the PSA Handbook, was appropriate.

RESPONSES TO THE FEBRUARY 2024 EXPOSURE DRAFT

- BC.15 PSAB received 13 responses to the Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices."
- BC.16 All respondents supported the proposed elevation of the GAAP level (from (iii) to (i)) for the four appendices as proposed in the Exposure Draft, and the related effective date of April 1, 2026.
- BC.17 Because of the input received and as PSAB concluded the changes were low risk, the Board proceeded with finalizing the amendments substantially as proposed in the Exposure Draft.

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