

SECTION PS 3390

contractual obligations

PURPOSE AND SCOPE

- .01 This Section:
- (a) defines and establishes disclosure standards on contractual obligations in public sector financial statements; but
 - (b) does not include disclosure standards for specific types of contractual obligations.
- [Former paragraph PS 3390.01, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

- .02 It may be useful to read this Section in conjunction with LIABILITIES, Section PS 3200, and CONTINGENT LIABILITIES, Section PS 3300.

DEFINITION

- .03 **Contractual obligations** are obligations of a public sector entity to others that will become liabilities in the future when the terms of those contracts or agreements are met. [Former paragraph PS 3390.03, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .04 Contractual obligations are distinct from liabilities as there has been no past transaction or event obligating the public sector entity to a future sacrifice of economic benefits at the financial statement date. Until a transaction or event occurs under a contract, a public sector entity does not have a liability. Disclosure of information about contractual obligations relates to the unperformed portion of those contracts. [Former paragraph PS 3390.04, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .05 Derivatives are unlike contractual obligations, such as a purchase agreement, where a liability does not arise until the good or service that is the object of the contract is provided. Derivatives are accounted for in accordance with FINANCIAL INSTRUMENTS, Section PS 3450.
- .06 Contractual obligations are distinct from contingent liabilities as there is no uncertainty related to the contractual obligation's existence.
- .07 Contractual obligations do not include a public sector entity's obligations related to ongoing programs such as health, welfare and education. In these cases, a public sector entity does not have a contractual obligation to others and maintains complete discretion as to whether to change the level or quality of its programs or the delivery of these programs. However, once a public sector entity enters into a contract or agreement, a contractual obligation exists and a certain degree of discretion to avoid the obligation is lost. [Former paragraph PS 3390.07, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

DISCLOSURE

- .08 Disclosing a public sector entity's contractual obligations is useful because it provides information about the nature and extent to which a public sector entity's resources are already committed to meet its obligations. [Former paragraph PS 3390.08, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .09 *Information about a public sector entity's contractual obligations should be disclosed in notes or schedules to the financial statements and should include descriptions of their nature and extent and the timing of the related expenditures.* [Former paragraph PS 3390.09 retained in Archived Pronouncements.] [Former paragraph PS 3390.09, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.] [APRIL 2017*]
- .10 Contractual obligations that would be disclosed include, but are not limited to, the following types:
- (a) contractual obligations that involve a high degree of speculative risk;
 - (b) contractual obligations to make expenditures that are abnormal in relation to the financial position or usual business operations; and
 - (c) contractual obligations that will govern the level of a certain type of expenditure for a considerable period into the future.

Footnotes

* Editorial change – November 2025.

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