

SECTION PS 3200

liabilities

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PURPOSE AND SCOPE

- .01 This Section:
- (a) provides guidance for applying the definition of liabilities set out in Chapter 8 of the Conceptual Framework, and establishes general recognition and disclosure standards for liabilities; but
 - (b) does not include standards for recognition and disclosure of specific types of liabilities, which are dealt with in individual CPA Canada Public Sector Accounting Handbook Sections.
- [Former paragraph PS 3200.01(a), amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .02 It may be useful to read this Section in conjunction with CONTINGENT LIABILITIES, Section PS 3300, and CONTRACTUAL OBLIGATIONS, Section PS 3390.

RECOGNITION

- .03 *Liabilities should be recognized in the financial statements when:*
- (a) *there is an appropriate basis of measurement; and*
 - (b) *a reasonable estimate can be made of the amount involved.* [SEPT. 2004]

LIABILITIES

- .04 Liabilities arise from many types of economic obligations. Economic obligations result in an entity being bound or committed to a particular course of action. They can arise from:
- (a) agreements or contracts, including situations where only one party has fulfilled its obligation or where both parties have partially fulfilled their obligations;
 - (b) legislation:
 - (i) another government's legislation (for example, environmental legislation of one level of government could place legal obligations on another government or one of its components or controlled entities to prevent, abate or clean up environmental damage);
 - (ii) a government's own legislation (for example, legislation may require the government or one of its components or controlled entities to make transfers to organizations and individuals that meet certain criteria set out in that legislation);
 - (c) constructive obligations (that is, those that can be inferred from the facts in a particular situation); and
 - (d) equitable obligations (that is, those that are based on ethical or moral considerations).
- [Former paragraph PS 3200.04, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .05 A liability is a present economic obligation of an entity to others as a result of a past event(s), the settlement of which is expected to result in the future sacrifice of economic benefit. Liabilities have three essential characteristics:
- (a) they embody a duty or responsibility to others, leaving an entity little or no discretion to avoid settlement of the obligation;
 - (b) the duty or responsibility to others entails settlement by future transfer or use of economic resources (such as the provision of goods or services or other form of economic settlement) at a specified or determinable date, on occurrence of a specified event, or on demand; and

(c) the transaction(s) or other event(s) obligating the entity has already occurred.

[Former paragraph PS 3200.05, amended by the Conceptual Framework, retained in Archived Pronouncements.]

- .06 Economic obligations are not liabilities unless they meet the three characteristics of liabilities. 1 [Former paragraph PS 3200.06, amended by the Conceptual Framework, retained in Archived Pronouncements.]

Discretion

- .07 Discretion is the ability to make individual choices, judgments or decisions. Decisions such as budgeting for purchases or transfers and future program expenditures are not present economic obligations. In these circumstances an entity is not bound to a particular course of action, as the entity has realistic alternatives to change or avoid the obligation through its own actions. [Former paragraph PS 3200.07, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .08 Having little or no discretion means that an entity has no realistic alternative but to settle the obligation. The economic obligation does not depend on future actions of the entity or other events. The entity has given up its freedom to make further choices, judgments and decisions related to the obligation. [Former paragraph PS 3200.08, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .09 For constructive and equitable obligations, determining when an entity has little or no discretion to avoid the obligation can be a matter of professional judgment. In assessing when an entity may have lost its discretion to make decisions and judgments, one would consider whether an entity has created a valid expectation among others and, as a result, has no realistic alternative but to settle its obligation. [Former paragraph PS 3200.09, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .10 For these types of obligations, an entity has little or no discretion when there is a preponderance of evidence that:
- the entity acknowledges and indicates it will act upon its decision to accept responsibility for the obligation; and
 - the entity has sufficiently communicated its decision to the affected parties.
- [Former paragraph PS 3200.10, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .11 Intentions and individual items of evidence on their own may not be sufficient for determining whether an entity has little or no discretion. However, when taken together, there may be a preponderance of evidence indicating that it has. Each circumstance needs to be judged individually given the available information. [Former paragraph PS 3200.11, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .12 Evidence that an entity has acknowledged and will act upon its decision to accept responsibility for the economic obligation can include, but is not limited to, consideration of the following:
- past practices;
 - established policies;
 - cabinet minutes, orders-in-council, ministerial orders;
 - approved plans;
 - ministerial letters; and
 - approval of legislation at various stages, such as first, second or third reading.
- [Former paragraph PS 3200.12, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .13 If those affected are unaware of the entity making its decision, no obligation can exist; the decision must be communicated to the parties affected. Communication to affected parties needs to be sufficient so that it creates a valid expectation among others resulting in an entity not being able to withdraw from the obligation and having no realistic alternative but to settle the economic obligation. [Former paragraph PS 3200.13, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .14 Evidence that an entity has sufficiently communicated its decision to affected parties could include, but is not limited to, the following:
- an announcement of the amount the entity is providing;
 - identification of the individuals, organizations or groups affected by the decision; and
 - an announcement of the time frame for implementing the decision.
- [Former paragraph PS 3200.14, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .15 When taken together, an entity's decision and communication of that decision can raise a valid expectation among others that it will accept certain responsibilities and, as a result, the entity has little or no discretion to avoid the obligation and cannot realistically withdraw from it. [Former paragraph PS 3200.15, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .16 There may be situations where an entity is contemplating a particular program and evidence of the program may be found in approved plans or other similar documents. However, without sufficient evidence that the entity has accepted responsibility for and communicated its decision, a person may be acting on that information to his or her own detriment. [Former paragraph PS 3200.16, amended by the Conceptual Framework, retained in Archived Pronouncements.]

- .17 Not all established patterns of past practice or policy decisions lead to a loss of discretion. There are numerous examples where an entity, in the past, has enhanced pension and other similar benefits to employees. However, entities have been reducing or eliminating those benefits, so in this case past practice is not sufficient to indicate that an entity has little or no discretion to avoid the obligation. [Former paragraph PS 3200.17, amended by the Conceptual Framework, retained in Archived Pronouncements.]

Sacrifice of economic benefits

- .18 Sacrificing economic benefits embodies a duty or responsibility to others to a future transfer or use of economic resources (such as the provision of goods or services or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand. [Former paragraph PS 3200.18, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .19 The economic obligation to sacrifice economic benefits must be to a third party. It is necessary that the third party exist at the financial statement date. It is not necessary, however, for the entity to know the specific identity of the third party(ies) involved, as the economic obligation may be to the public at large or to a specific group of recipients. [Former paragraph PS 3200.19, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .20 Some economic obligations to sacrifice economic benefits may be shared, as two or more entities may be jointly and severally liable. Most economic obligations bind a single entity, and those that bind two or more entities are commonly ranked rather than shared. For example, a primary debtor and a guarantor may both be obligated for a debt, but they would not have the same economic obligation — the guarantor must sacrifice economic benefits only if the primary debtor defaults. [Former paragraph PS 3200.20, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .21 The timing of the sacrifice of economic benefits in the future must be specified. An economic obligation to sacrifice economic benefit to others requires settlement at a specified or determinable date, such as within 30 days, on occurrence of a specified event, such as those related to cost-sharing agreements, or on demand, such as with certain bank loans. [Former PS paragraph 3200.21, amended by the Conceptual Framework, retained in Archived Pronouncements.]

Past transactions and other events 2

- .22 It is the occurrence of a past obligating transaction or other event on or before the financial statement date that distinguishes a present economic obligation to sacrifice economic benefits from a future economic obligation. [Former paragraph PS 3200.22, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .23 The obligating transaction or other event arising from exchange agreements or contracts usually occurs at the point of exchange. Once title to the good is assumed by an entity, that entity is obligated to settle. [Former paragraph PS 3200.23, amended by the Conceptual Framework, retained in Archived Pronouncements.] [Former paragraph PS 3200.23, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .24 The actions of others, such as meeting eligibility criteria, often determine when an obligating transaction or other event occurs in non-exchange agreements and contracts. Shared cost agreements are an example where the obligating transaction or other event occurs when the recipient incurs eligible expenditures. [Former paragraph PS 3200.24, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .25 The existence of another government's legislation is not an obligating transaction or other event on its own. Environmental legislation, for example, may establish basic rules that, if not complied with, can result in a present economic obligation. However, normally it is the occurrence of environmental damage that is the obligating transaction or other event. [Former paragraph PS 3200.25, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .26 The existence of a government's own legislation containing details of its policy in relation to a particular program is not an obligating transaction or other event for the government or its components or organizations:
- for programs such as entitlements until recipients meet the eligibility criteria;
 - for programs that provide relief assistance to natural disaster victims until such a disaster occurs.
- [Former paragraph PS 3200.26, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .27 Legislation having retroactive application cannot create a past obligating transaction or other event. Any economic obligations related to such legislation would be accounted for in the current period, not in the period of the effective date of the legislation. [Former paragraph PS 3200.27, amended by the Conceptual Framework, retained in Archived Pronouncements.]

DISCLOSURE

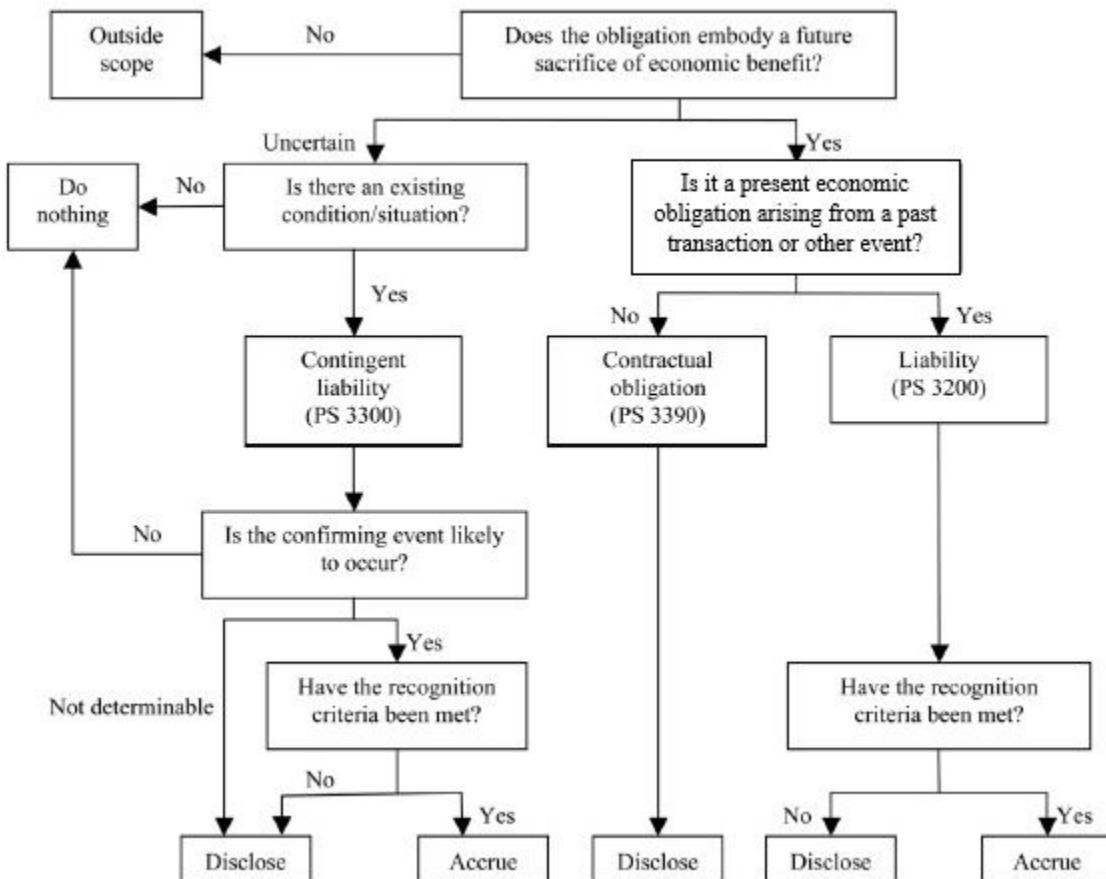
- .28 An economic obligation may meet the definition of a liability; however, it is not capable of being recognized in financial statements because a reasonable estimate of the amount involved cannot be made. [Former PS 3200.28, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .29 For unrecognized liabilities, disclosing the nature of the liability provides information about the potential effect on the entity's financial statements when the liability becomes measurable. [Former paragraph PS 3200.29, amended by the Conceptual Framework, retained in Archived Pronouncements.]

- .30 Information about the nature of liabilities that cannot be recognized should be disclosed in notes together with the reason(s) why a reasonable estimate cannot be made of the amount involved. [SEPT. 2004]

APPENDIX A

DECISION TREE — OBLIGATIONS

The following decision tree has been prepared to illustrate the evaluation of obligations for determining the appropriate accounting requirements. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context of the standards referenced in the decision tree. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



[Former Decision Tree — Obligations, amended by the Conceptual Framework, retained in Archived Pronouncements.]

Footnotes

1. References to the term "obligation" in the remainder of the PSA Handbook refer to "economic obligation" as described in Chapter 8 of the Conceptual Framework.
2. The term "events" includes "transactions" as "transactions" are a subset of "events".

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