

CPA Canada Public Sector Accounting Handbook

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Revised to: Update No. 61 (05/25)

public sector accounting standards

introduction to the public sector accounting handbook

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AUTHORITY

- .01 The Public Sector Accounting Board (PSAB) issues standards and guidance with respect to matters of accounting in the public sector after following a due process. PSAB issues such standards and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of good practice. [Former paragraph .01, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]
- .02 "Public sector" refers to governments, government components, government organizations and partnerships. Each of these entities is a "public sector entity".
- .03 PSAB's rules of membership and Terms of Reference are approved by the Accounting Standards Oversight Council.

DEFINITIONS

- .04 A **government component** is an integral part of government, such as a department, ministry or fund. It is not a separate entity with the power to contract in its own name and that can sue and be sued.
- .05 A **government organization** is any organization controlled by a government that is a separate entity with the power to contract in its own name and that can sue and be sued. (Control is explained in GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.07-24.)
- .06 A **government business enterprise** is a government organization that has all of the following characteristics:
- (a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
 - (b) It has been delegated the financial and operational authority to carry on a business.
 - (c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity.
 - (d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
- (These characteristics are explained in GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.29-.31.)
- .07 A **government not-for-profit organization** is a government organization that has all of the following characteristics:
- (a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
 - (b) It has counterparts outside the public sector as defined in paragraph .02.
 - (c) It is an entity normally without transferable ownership interests.
 - (d) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
 - (e) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
- .08 An **other government organization** is a government organization that has all of the following characteristics:
- (a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
 - (b) It is neither a government business enterprise nor a government not-for-profit organization.
- .09 A **partnership** is not a government organization but is a contractual arrangement between a public sector entity and a party or parties outside of the reporting entity that has all of the following characteristics:
- (a) The partners co-operate toward achieving significant, clearly defined common goals.

- (b) The partners make a financial investment in the partnership.
- (c) The partners share control of decisions related to the financial and operating policies of the partnership on an ongoing basis.
- (d) The partners share, on an equitable basis, the significant risks and benefits associated with the operations of the partnership.

(These characteristics are explained in INTERESTS IN PARTNERSHIPS, paragraphs PS 3060.11-28.) [Former paragraph .09, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.10 A **business partnership** is a partnership that has all of the following characteristics:

- (a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
- (b) It has been delegated the financial and operational authority to carry on a business.
- (c) It sells goods and services to individuals and organizations other than the partners as its principal activity.
- (d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources other than the partners.

(These characteristics are explained in INTERESTS IN PARTNERSHIPS, paragraphs PS 3060.11-22, PS 3060.27-28 and PS 3060.33.)

APPLICATION

- .11 The Conceptual Framework for Financial Reporting in the Public Sector ("the Conceptual Framework") and these public sector accounting standards apply to all public sector entities that issue general purpose financial statements unless:
 - (a) specifically directed or permitted to use alternative standards by PSAB, or
 - (b) limited in applicability as outlined in the individual Sections.

When applying the CPA Canada Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150. [Former paragraph 11 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .12 General purpose financial statements are financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users. Not all public sector entities issue general purpose financial statements. Public sector entities that issue general purpose financial statements should comply with the applicable accounting standards in accordance with this Introduction. For purposes of the PSA Handbook, the use of the term "financial statements" means general purpose financial statements.
- .13 In contrast, special purpose financial statements are financial statements prepared in accordance with a financial reporting framework that is designed to meet the financial information needs of specific users. The broad distribution of special purpose financial statements does not make these financial statements general purpose. The PSA Handbook is not required for the preparation of special purpose financial statements.
- .14 For purposes of preparing general purpose financial statements, governments apply the Conceptual Framework and standards for governments in the PSA Handbook. [Former paragraph 14 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .15 For purposes of preparing general purpose financial statements, government components 1 apply the Conceptual Framework and standards for governments in the PSA Handbook. [Former paragraph 15 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .16 For purposes of determining the appropriate standards, a government organization may be classified as:
 - (a) a government business enterprise;
 - (b) a government not-for-profit organization; or
 - (c) an other government organization.
- .17 For purposes of preparing general purpose financial statements, government business enterprises apply the conceptual framework and standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting. [Former paragraph 17 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .18 For purposes of preparing general purpose financial statements, government not-for-profit organizations apply the Conceptual Framework and standards for not-for-profit organizations in the PSA Handbook or the Conceptual Framework and standards in the PSA Handbook without Sections PS 4200 to PS 4270 (the PS 4200 series). 2 [Former paragraph 18 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .19 For purposes of preparing general purpose financial statements, other government organizations would normally apply the Conceptual Framework and standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the conceptual framework and standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. The conceptual framework and standards determined to be most appropriate should be disclosed and consistently applied. [Former paragraph 19 of the

Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]

- .20 Determining the most appropriate standards for other government organizations requires the application of professional judgment. Factors to consider in assessing users' needs, in addition to those outlined in Chapter 3 of the Conceptual Framework, include, but are not limited to, whether an organization:
- (a) has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - (b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses;
 - (c) has commercial-type operations and substantially derives its revenue from these activities; and
 - (d) receives limited government assistance on an ongoing basis.

The degree of importance of these factors further depends on the particular circumstances in each case, including the nature of an organization's mandate and considering its purpose, objectives and limitations. In some situations, a particular factor may provide a high degree of evidence of the appropriateness of a particular set of standards whereas, in other situations, the importance of the same factor may not be as significant. Positive responses to one or a combination of these factors would indicate the conceptual framework and standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting may be more appropriate. [Former paragraph 20 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]

- .21 For purposes of preparing general purpose financial statements, partnerships between two or more public sector entities, 3 except for business partnerships, would normally apply the Conceptual Framework and standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the conceptual framework and standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. Factors to consider in assessing users' needs are included in paragraph 20. The conceptual framework and standards determined to be most appropriate should be disclosed and consistently applied. [Former paragraph 21 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .22 For purposes of preparing general purpose financial statements, business partnerships between two or more public sector entities 4 apply the conceptual framework and standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting. [Former paragraph 22 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .23 The conceptual framework and standards used by partnerships and business partnerships with one or more private sector partners is not specified by the PSA Handbook but, instead, determined by the partners. [Former paragraph 23 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .24 The chart included as Appendix A to this Introduction is intended to assist in applying the appropriate conceptual framework and standards to various types of public sector entities. [Former paragraph 24 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .25 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.14, describes the relationship between italicized and non-italicized paragraphs. The use of the term "standards" in the PSA Handbook refers to both italicized and non-italicized paragraphs.

SIGNIFICANCE AND JUDGMENT

- .26 These standards are not intended to apply to immaterial or insignificant items or matters.
- .27 In developing its standards, PSAB recognizes that no rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case. 5 [Former paragraph 27 of the Introduction to the Public Sector Accounting Handbook, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

EFFECTIVE DATE

- .28 Italicized paragraphs issued before February 2002 are dated to show when they were approved by PSAB. PSAB encourages the adoption of its standards as soon as practicable.
- .29 Italicized paragraphs issued after February 2002 have effective dates after which compliance with the concepts or principles expressed therein is required. Unless otherwise indicated, the Conceptual Framework or standards are effective with respect to financial statements and financial reports relating to years commencing on or after the first of the month noted beside the italicized paragraph. The Conceptual Framework or standards being amended remain in force until the effective date of the amendments. In many cases, however, preparers will adopt new or amended concepts or standards before the effective date. [Former paragraph 29 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]

NEUTRALITY IN STANDARD SETTING

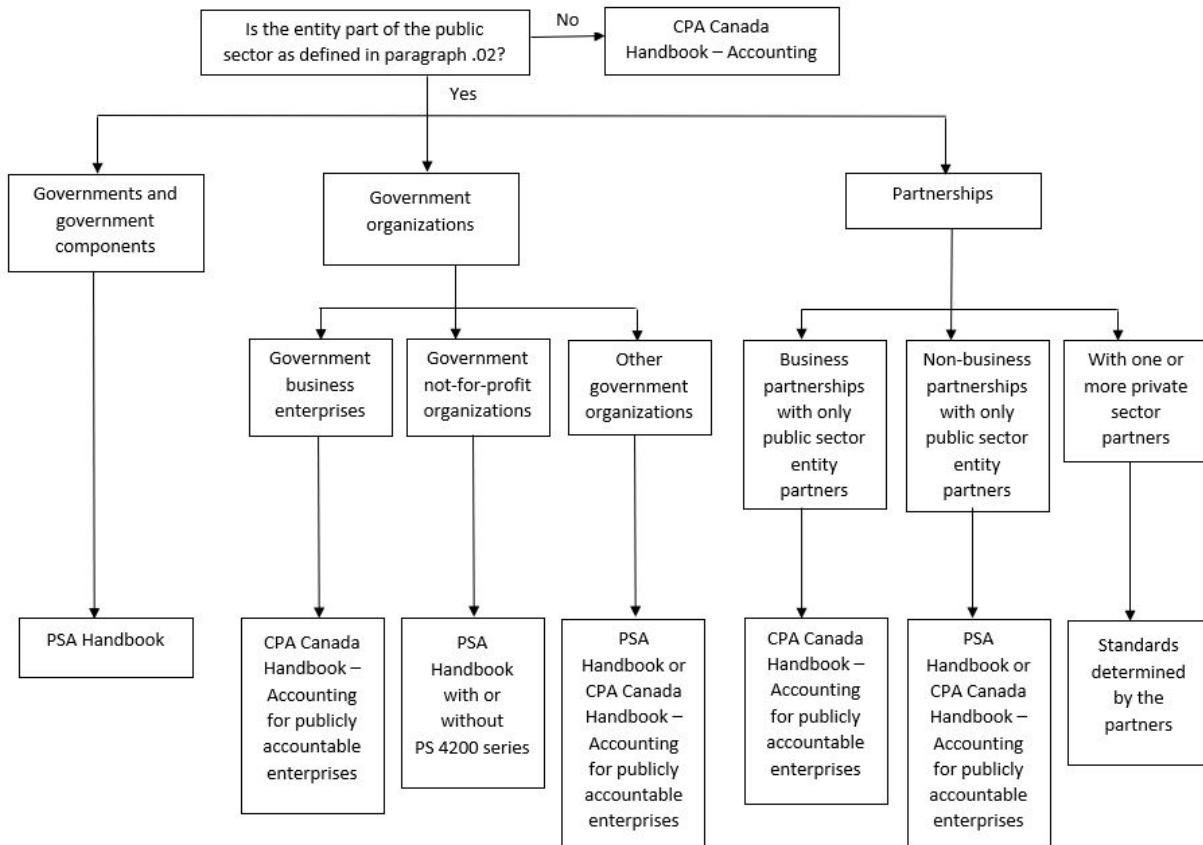
- .30 Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. As a matter of policy, PSAB assesses the merits of proposed standards from a position of neutrality. That is, the soundness of standards is not evaluated on the grounds of their possible impact on behaviour. PSAB does not choose standards according to the kinds of behaviour it wishes to promote and the kinds it wishes to discourage. At the same time, it is admitted that some standards will often have the effect of influencing behaviour, and PSAB is alert to the economic impact of the standards that it promulgates. However, the justification for standards is conceptual and not in terms of their impact. [Former paragraph 30 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- (paragraphs .31-.32 deleted) [Former paragraphs .31-.32, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

CONSEQUENTIAL AMENDMENTS

- .33 Consequential amendments may result from the issuance of the Conceptual Framework, a new standard or an amendment to an existing standard. Consequential amendments follow the same effective date and method of application as the Conceptual Framework or new or amended standard which gave rise to the consequential amendments, unless otherwise determined by PSAB. Early adoption of a new or amended standard also requires the early adoption of all consequential amendments related to that standard. Consequential amendments are not available for early adoption if the amended standard has not been early adopted. [Former paragraph 33 of the Introduction to the Public Sector Accounting Standards, amended by the Conceptual Framework, retained in Archived Pronouncements.]

APPENDIX A

This Appendix is illustrative only. It is not a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d). This Appendix is intended to assist in applying the appropriate Conceptual Framework and standards to various types of public sector entities. Application for a specific public sector entity can only be determined by considering the guidance in the main body of the Introduction.



PSAB reserves the right to recommend additional or different information to meet the special circumstances of government organizations.

Footnotes

1. Government components that adopt the standards issued by the Public Sector Accounting Board should do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted. Government components that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION, Section PS 2125.
2. Standards for not-for-profit organizations in the PSA Handbook include Sections PS 4200 to PS 4270. Only government not-for-profit organizations are permitted to follow these Sections. Government not-for-profit organizations should adopt the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 for fiscal periods beginning on or after January 1, 2012. Government not-for-profit organizations that change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION, Section PS 2125.
3. Partnerships that determine standards applicable to publicly accountable enterprises are most appropriate for their partnership should do so for fiscal periods beginning on or after January 1, 2017. Partnerships that adopt the standards issued by the Public Sector Accounting Board should also do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted. Partnerships that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards issued by the Public Sector Accounting Board should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION, Section PS 2125.
4. Business partnerships that adopt the standards applicable to publicly accountable enterprises should do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted. Business partnerships that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective.
5. Fair presentation is discussed in paragraphs PS 1202.017-018.

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