

# Accounting Standards that Apply Only to Government Not-for-Profit Organizations

## Sections PS 4200 to PS 4270

### — Basis for Conclusions

December 2010

#### FOREWORD

CICA Public Sector Accounting Handbook Revisions Release No. 32, issued in December 2010, included the following:

- amendments to the Introduction to Public Sector Accounting Standards;
- an Introduction to Accounting Standards that Apply Only to Government Not-for-Profit Organizations;
- FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4200;
- CONTRIBUTIONS — REVENUE RECOGNITION, Section PS 4210;
- CONTRIBUTIONS RECEIVABLE, Section PS 4220;
- CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230;
- COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4240;
- REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4250;
- DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4260; and
- 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 or the Board) 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 followed by PSAB when developing or removing a standard.

This document has been prepared by staff of PSAB. This document does not form part of the CICA Public Sector Accounting Handbook nor is it part of public sector generally accepted accounting principles. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guidance.

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#### TABLE OF CONTENTS

##### Background

##### Appropriate basis of GAAP

Why not the accounting standards for private enterprises?

Why the PSA Handbook?

Why the choice of the PSA Handbook without Sections PS 4200 to PS 4270?

What about comparability versus the private sector?

##### Transitioning to the PSA Handbook

#### Paragraph

1-4

5-17

8-9

10-12

13-14

15-17

18-27

Application of Section PS 2125	19-21
Transition date	22-25
Cost of transition	26-27
<b>GAAP hierarchy</b>	28-31
Use of Sections PS 4200 to PS 4270 by others	30-31
<b>Definition of a GNFPO</b>	32-34
<b>Consolidation</b>	35-37
<b>Other matters</b>	38-39
<b>Future changes</b>	40-42

## **BACKGROUND**

1. In March 2010, the PSAB issued an Exposure Draft, "Financial Reporting by Government Not-for-Profit Organizations." The Exposure Draft proposed to incorporate into the CICA Public Sector Accounting (PSA) Handbook, Sections 4400 to 4470 (the 4400 series) from the CICA Handbook – Accounting and to direct government not-for-profit organizations (GNFPOs) to adhere to the standards for not-for-profit organizations in the PSA Handbook. The 4400 series would be included in the PSA Handbook as Sections PS 4200 to PS 4270.
2. Because the CICA Handbook – Accounting is being restructured, PSAB needed to determine which source of generally accepted accounting principles (GAAP) a GNFPO should apply going forward.
3. The proposals in the Exposure Draft were intended to minimize the changes encountered by a GNFPO on its transition to the PSA Handbook by proposing limited changes to the 4400 series. With a few exceptions, GNFPOs would continue their current accounting for topics covered in the 4400 series on their transition to the PSA Handbook.
4. After considering the alternatives and concerns raised by respondents and the rationale for the proposal, PSAB approved incorporating Sections PS 4200 to PS 4270 into the PSA Handbook, and amendments to the Introduction to Public Sector Accounting Standards to allow GNFPOs to either adhere to the standards for not-for-profit organizations in the PSA Handbook (the PSA Handbook with Sections PS 4200 to PS 4270) or to adhere to the PSA Handbook without Sections PS 4200 to PS 4270.

## **APPROPRIATE BASIS OF GAAP**

5. The main issue addressed in the Exposure Draft was the future basis of GAAP for GNFPOs.
6. While many respondents supported the proposals in the Exposure Draft, other respondents suggested differing approaches:
  - (a) Some respondents supported providing GNFPOs the option of following either the accounting standards for private enterprises issued as Part II of the CICA Handbook – Accounting or the PSA Handbook.
  - (b) Other respondents supported directing all GNFPOs to the PSA Handbook including Sections PS 4200 to PS 4270, as proposed in the Exposure Draft.
  - (c) While others supported directing all GNFPOs to the existing PSA Handbook (without Sections PS 4200 to PS 4270).
7. In reaching its conclusion, PSAB carefully discussed the specific alternatives and concerns raised by respondents to the proposals.

### **Why not the accounting standards for private enterprises?**

8. PSAB discussed generally the appropriateness of directing GNFPOs to the accounting standards for private enterprises. These standards were designed to address the reporting needs of those entities with limited financial statement users, users that are able to obtain additional information from the entity as need be. Alternatively, GNFPOs provide goods and services to the public and, therefore, are accountable to the public. Because of the limited focus of the accounting standards for private enterprises and the broader public accountability of GNFPOs, PSAB concluded that the accounting standards for private enterprises were not an appropriate basis of GAAP for government organizations.
9. Similar to governments and other government organizations, GNFPOs provide goods and services to the public. As stewards of public resources, GNFPOs are equally accountable to the public as are other organizations that are part of government.

### **Why the PSA Handbook?**

10. PSAB reviewed its rationale for proposing to direct GNFPOs to the PSA Handbook and reiterated that the PSA Handbook is the most appropriate basis of GAAP for GNFPOs in discharging their public accountability. The Board reconfirmed the PSA Handbook to be of equal benefit and appropriateness to GNFPOs as it is to governments and other government organizations.
11. PSAB concluded that the key users of GNFPO financial statements are the same as those of other government organization financial statements (for example, the public and legislators).

12. Finally, PSAB also concluded that the PSA Handbook addresses matters of accounting in the public sector and GNFPOs are controlled by a government, by definition, and are part of the public sector. Incorporating these standards into the PSA Handbook enhances the completeness of the Handbook relative to accounting matters specific to not-for-profit organizations.

**Why the choice of the PSA Handbook without Sections PS 4200 to PS 4270?**

13. PSAB also considered whether GNFPOs should be provided the choice to adhere to the PSA Handbook without Sections PS 4200 to PS 4270.
14. PSAB considered that many other government organizations currently follow the PSA Handbook without Sections PS 4200 to PS 4270 and are well served by these standards. Allowing this option would further enhance comparability of financial reporting of GNFPOs with those of other government organizations.

**What about comparability versus the private sector?**

15. A primary concern raised by respondents to the proposals in the Exposure Draft was the future comparability between financial statements of GNFPOs with those of not-for-profit organizations in the private sector. Respondents expressed concern that comparability will be reduced as a result of different standards between the PSA Handbook and the accounting standards for private enterprises, specifically in such areas as retirement benefits and post-employment benefits, leased tangible capital assets and financial instruments.
16. PSAB reiterated its support for the requirements in the PSA Handbook on retirement benefits and post-employment benefits, and leased tangible capital assets, which enhance comparability with other government organizations. The Board is also in the process of developing a comprehensive financial instrument standard.
17. PSAB concluded that transitioning to the PSA Handbook by GNFPOs will improve the comparability of financial reporting amongst GNFPOs and with other government-controlled organizations. The Board supports this enhanced comparability recognizing that it would lead to better decision making by users of the financial statements.

**TRANSITIONING TO THE PSA HANDBOOK**

18. These standards are to be adopted by GNFPOs on a retroactive basis subject to the requirements of FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125. Respondents to the Exposure Draft generally supported this proposal.

**Application of Section PS 2125**

19. Some respondents raised questions about the application of FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125 to GNFPOs on adoption of the PSA Handbook due to the nature of exemptions and exceptions being offered in this standard.
20. Section PS 2125 applies to government organizations on their transition to the PSA Handbook. As many of the exemptions included in Section PS 2125 relate to matters covered in Sections PS 4200 to PS 4270, for which GNFPOs may continue their existing accounting (for example, investments in government business enterprises, government business partnerships, business combinations and tangible capital asset impairment), only limited exemptions will be relevant to those GNFPOs that elect to follow the PSA Handbook with Sections PS 4200 to PS 4270.
21. All exemptions and exceptions in Section PS 2125 will be relevant to those GNFPOs that elect to follow the PSA Handbook without Sections PS 4200 to PS 4270.

**Transition date**

22. Some respondents expressed concern about the transition date to the PSA Handbook of January 1, 2012. PSAB concluded that the transition date was appropriate considering the limited changes being made to Sections PS 4200 to PS 4270 (relative to the 4400 series in the CICA Handbook – Accounting).
23. GNFPOs that elect to follow the PSA Handbook including Sections PS 4200 to PS 4270 will be able to continue their existing accounting, for matters covered in these Sections, with a few exceptions. For example, the financial statement presentation model currently followed by GNFPOs in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400 of the CICA Handbook – Accounting is carried forward in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4200, with the exception of the statement of cash flow. Budget information and the net debt model of presentation in FINANCIAL STATEMENT PRESENTATION, Section PS 1200, would not be required by GNFPOs on their transition to the PSA Handbook if the GNFPOs elect to follow the PSA Handbook including Sections PS 4200 to PS 4270.
24. PSAB was silent on early adoption as it did not expect many GNFPOs would adopt the PSA Handbook until a comprehensive financial instrument standard is issued. Once Sections PS 4200 to PS 4270 are included in the PSA Handbook and the Introduction to Public Sector Accounting Standards is amended, GNFPOs are able to elect to follow either the PSA Handbook with or without Sections PS 4200 to PS 4270. GNFPOs that do elect to adopt the PSA Handbook prior to January 1, 2012 should be aware of the possible need to change their accounting for financial instruments on issuance of a comprehensive financial instrument standard.
25. Until the transition date for GNFPOs, the 4400 series of standards in Part V of the CICA Handbook – Accounting will remain in effect and will continue to be followed by GNFPOs.

**Cost of transition**

26. Some respondents expressed concern about the cost of transitioning to the PSA Handbook due to the lack of a comprehensive financial instrument standard. Without a comprehensive financial instrument standard, existing standards on some types of financial instruments will require GNFPs to restate financial instrument balances on a cost basis on adoption of the PSA Handbook. Respondents expressed concern due to the significant financial instrument holdings of some GNFPs.
27. PSAB recognizes there are differences between the CICA Handbook – Accounting and the PSA Handbook in the accounting for financial instruments. However, the Board is developing a comprehensive financial instrument standard for the PSA Handbook.

#### **GAAP HIERARCHY**

28. Some respondents to the Exposure draft also expressed concern over gaps in the coverage provided by the PSA Handbook relative to the CICA Handbook – Accounting (for example, in the areas of revenue recognition, inventory and asset retirement obligations). GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, provides guidance to entities when the PSA Handbook is silent on specific matters and refers to other sources of GAAP. GNFPs may need to refer to other sources of GAAP in such areas.
29. The Board has also approved a project to develop a standard on revenue recognition for exchange transactions. The Board has further agreed to continue to review its work plan for other projects that should be undertaken.

#### **Use of Sections PS 4200 to PS 4270 by others**

30. Respondents questioned whether Sections PS 4200 to PS 4270 could be followed by non-GNFPs (or by GNFPs that elect to follow the PSA Handbook without Sections PS 4200 to PS 4270) in areas where the existing PSA Handbook is silent.
31. As noted in paragraph .02 of the Introduction to Accounting Standards that Apply Only to Government Not-for-Profit Organizations, Sections PS 4200 to PS 4270 have not been assessed for consistency with the conceptual framework in the PSA Handbook. Non-GNFPs and those GNFPs that adhere to the PSA Handbook without Sections PS 4200 to PS 4270 should only refer to these Sections as other sources if they are consistent with the conceptual framework in the PSA Handbook.

#### **DEFINITION OF A GNFP**

32. Several comments were received by respondents requesting additional clarity or changes to the GNFP definition in the PSA Handbook.
33. The Board reiterated that the proposals in the Exposure Draft were directed at transitioning those organizations currently classified as GNFPs to the PSA Handbook due to the restructuring of the CICA Handbook – Accounting. This is the first phase of a longer term project.
34. A GNFP is still defined as a government organization that meets the definition of a not-for-profit organization and has counterparts in the private sector. The Board concluded that changing the definition at this stage would add confusion and complexity to government organizations currently classified either as GNFPs or as other government organizations.

#### **CONSOLIDATION**

35. An additional matter raised by respondents to the Exposure Draft was the fact that bringing Sections PS 4200 to PS 4270 into the PSA Handbook would still require consolidated adjustments for the government reporting entity.
36. A GNFP is consolidated in the financial statements of its government reporting entity. Prior to its transition to the PSA Handbook, adjustments would have been made, on consolidation, to conform the accounting policies of organizations using the CICA Handbook – Accounting to those of their government reporting entity under the PSA Handbook in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.02.
37. On adoption of the PSA Handbook, some GNFPs will follow the PSA Handbook including Sections PS 4200 to PS 4270. While the financial statements of the GNFP will be in accordance with the PSA Handbook, differences in accounting policies between the organization and the government reporting entity will still need to be adjusted on consolidation.

#### **OTHER MATTERS**

38. Some respondents requested more information about the PSA Handbook for the transition by GNFPs. GNFPs (and other government organizations) are encouraged to refer to the Summary Comparison of CICA PSA Handbook and CICA Handbook – Accounting available on the PSAB website.
39. Some respondents expressed comments regarding the purpose of the applicability table in the Introduction to Accounting Standards that Apply Only to Government Not-for-Profit Organizations that appears before Sections PS 4200 to PS 4270. The Board confirmed the table is meant to provide guidance as to the Sections in the PSA Handbook a GNFP may need to refer to. The table is for assistance purposes only and is not meant to be prescriptive.

#### **FUTURE CHANGES**

40. Some respondents to the Exposure Draft provided comments regarding areas for improvement in the content of Sections PS 4200 to PS 4270.

41. Going forward, PSAB and the Accounting Standards Board have agreed to perform a joint review of the content of Sections PS 4200 to PS 4270. A joint task force of public sector and private sector constituents will assist in this review. Included in the joint review will be an assessment of the various aspects of Sections PS 4200 to PS 4270 relative to other requirements in the PSA Handbook including the conceptual framework. Comments received by respondents to the Exposure Draft will be considered during this joint review.
42. The two Boards consider it preferable to maintain comparability at the individual standards level, where appropriate, between Sections PS 4200 to PS 4270 in the PSA Handbook and the 4400 series issued as Part III of the CICA Handbook – Accounting.

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