SECTION PS 2120
accounting changes

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and disclose:

(a) a change in an accounting policy;

(b) a change in an accounting estimate; and

(c) a correction of an error relating to prior period financial statements.

CHANGE IN AN ACCOUNTING POLICY

.02 Accounting policies encompass the specific principles and the methods used in their application that are selected by a public sector entity in preparing financial statements. There is a general presumption that the accounting policies followed by a public sector entity are consistent within each accounting period and from one period to the next. However, a change in an accounting policy may be made: to conform to new Public Sector Accounting Standards; to adopt Public Sector Accounting Standards for the first time; or, if it is considered that the change would result in a more appropriate presentation of events or transactions in the financial statements of the public sector entity. [Former paragraph PS 2120.02, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

.03 Generally, changes in accounting policy affect, or have a potential effect on, either the operating results or the accumulated surplus / deficit, but may also affect other items. Changes in accounting policy would include, for example, a change in the method of determining the costs applicable to items in inventory held for resale when such change is not the result of changed circumstances, experience or new information.

.04 Neither (a), the initial adoption or alteration of an accounting policy necessitated by events or transactions that are clearly different in substance from those previously occurring, nor (b), the initial adoption of an accounting policy in recognition of events or transactions occurring for the first time or that previously were immaterial in their effect, is considered to be a change in an accounting policy.

.05 The classification of an item in the financial statements of the current period may be different from that in the financial statements of prior periods as a result of a change in the allocation or grouping of items within or among relevant categories. Such a change in classification is a matter of presentation and is not, in itself, a change in an accounting policy. However, to enhance comparability with the financial statements of the current period, the item is reclassified in the financial statements of the prior periods to conform with the new basis. 1 [Former paragraph PS 2100.05 and related footnote, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.06 Various treatments have been advocated to deal with a change in an accounting policy, including the following:

(a) Prospective application. The new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances.

(b) Retroactive application with no restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in the operating results or an adjustment of the opening balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities.

(c) Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

[Former paragraph PS 2120.06, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.06A The statement of changes in net assets or net liabilities, as described in FINANCIAL STATEMENT PRESENTATION, Section PS 1202 includes the effects of retroactive application, in accordance with this Section, for each applicable component of net assets or net liabilities.

.07 Proponents of prospective application argue that a restatement of previously reported figures dilutes public confidence in financial statements and has an unsettling effect on parties that have made decisions on the basis of the financial statements as originally issued. Since prospective application does not result in a restatement of prior period financial statements, however, the current and subsequent periods would not be fully comparable with periods prior to the change.

.08 Retroactive application with no restatement of prior periods would result in uniform accounting policies being applied to similar items in periods subsequent to the change. This approach would avoid dilution of confidence in the financial statements that may result from restatement of prior periods. Although periods subsequent to the change may not be fully comparable with periods prior to the change, proponents of this approach argue that inter-period comparability may be achieved by disclosing pro forma data to show what the effect would have been if the new policy had been followed in prior periods.

.09 Retroactive application with restatement of all prior periods that are presented provides consistency in accounting policies from one period to another. It assists in interpreting trends in a public sector entity’s performance and other analytical data that are based on comparisons. [Former paragraph PS 2120.09, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

.10 In certain circumstances, it may be extremely difficult to obtain the necessary financial data to enable a change in an accounting policy to be applied retroactively. In such circumstances, the new accounting policy would be applied prospectively.

.11 The standards in this Section do not override any specific provisions as to prospective or retroactive application contained in other Public Sector Accounting Standards.

.12 A distinction can be made between the two primary reasons for a change in accounting policy: a public sector entity may change an accounting policy in order to comply with new Public Sector Accounting Standards, or to adopt Public Sector Accounting Standards for the first time; or, a change in accounting policy may be made when there is a choice from among two or more appropriate principles, or methods used in their application, and a public sector entity chooses to change the policy applied because it believes that the change would result in a more appropriate presentation of events or transactions in its financial statements. [Former paragraph PS 2120.12, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

.13 When a change in an accounting policy is made to conform to new Public Sector Accounting Standards or to adopt Public Sector Accounting Standards for the first time, 2 the new standards may be applied retroactively or prospectively.

.14 *When there is a choice from among two or more appropriate principles or methods used in their application and a change is made, the new accounting policy should be applied retroactively, unless the necessary financial data are not reasonably determinable.* [SEPT. 1997]

.15 In some circumstances, while the total cumulative effect of a change in an accounting policy on prior periods can be determined, the effect with respect to specific prior periods may not be reasonably determinable. In such cases, the retroactive effect of the change in the accounting policy is accounted for as a cumulative adjustment of the opening balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities of the period in which the change is made. [Former paragraph PS 2120.15, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.16 When there has been a change in an accounting policy, a description of the nature of the change as well as its effect on the current and prior periods assists in understanding the significance of the change and its impact on the financial statements. Depending on the nature of the change, it may be appropriate to disclose its effect on significant items such as operating results.

.17 *When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy, except in those circumstances when the effect of the new accounting policy is not reasonably determinable for individual prior periods. In such circumstances, an adjustment should be made to the opening balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the change on prior periods.* [APRIL 2026] [Former paragraph PS 2120.17, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.17A When an adjustment is needed to be made to the opening balance of a component(s) of net assets or net liabilities the components affected would depend on:

(a) whether the change affects the opening accumulated balance of remeasurement gains and losses or accumulated other; and

(b) whether all or part of that change should remain in the closing balances of the related components.

.18 *For each change in an accounting policy in the current period, the following information should be disclosed:*

(a) a description of the change;

(b) the effect of the change on the financial statements of the current period; and

(c) the reason for the change. [SEPT. 1997]

.19 *When a change in an accounting policy has been applied retroactively and prior periods have been restated, the fact that the financial statements of prior periods that are presented have been restated and the effect of the change on those prior periods should be disclosed.* [SEPT. 1997]

.20 *When a change in an accounting policy has been applied retroactively but prior periods have not been restated, the fact that the financial statements of prior periods that are presented have not been restated should be disclosed. The cumulative adjustment to the opening balance of the accumulated surplus / deficit of the current period should also be disclosed.* [SEPT. 1997]

.21 *When a change in an accounting policy has not been applied retroactively, this fact should be disclosed.* [SEPT. 1997]

.22 *The disclosure of particulars, including dollar amounts, applies to each change in an accounting policy; it is not appropriate to net items when considering materiality.* [SEPT. 1997]

.23 *A change in an accounting policy that does not have a material effect in the current period but is likely to have a material effect in future periods should be disclosed.* [SEPT. 1997]

.24 Some public sector entities include in their financial statements, public accounts or other reports, historical summaries of their financial results for a series of accounting periods, some for as many as ten years. Such summaries are often used for trend analysis. In order for such summaries and the resulting analyses to provide meaningful information to readers, the accounting principles used would be comparable from year to year. Therefore, when a public sector entity reports an historical summary of its financial results, it is desirable practice that the amounts included in the summary from prior years be adjusted to reflect the accounting policies applied in calculating the results for the current year, regardless of whether the public sector entity has accounted for changes in accounting policy retroactively in its financial statements. [Former paragraph PS 2120.24, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

CHANGE IN AN ACCOUNTING ESTIMATE

.25 Changes in estimates used in accounting are the necessary consequences of the periodic preparation of financial statements. Estimating, of course, requires the exercise of judgment and reappraisal as new events occur, as more experience is acquired, or as additional information is obtained. Examples of items for which estimates are necessary include doubtful accounts and loans receivable and inventory obsolescence.

.26 It is sometimes difficult to distinguish between a change in an accounting policy and a change in an accounting estimate. For example, a public sector entity may change from deferring and amortizing certain costs to expensing them as incurred because, as a result of new information, the future benefits of the costs have become doubtful. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates. In cases where it is difficult to draw a clear distinction, it is usual for such a change to be treated as a change in an estimate, not as a change in an accounting policy. [Former paragraph PS 2120.26, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

.27 A change in an estimate may affect the financial results of future periods, as well as those of the current period. One point of view would argue that, in such cases, a cumulative adjustment should be made in the current period representing the retroactive effect of the revision on prior periods so that the financial results of future periods would be on the new basis. The preferred accounting treatment, however, is that a change in an estimate not be given retroactive effect since it arises from new information or developments. The effect of a change in an estimate ought to be allocated to the period of revision and applicable future periods if it affects both.

.28 *The effect of a change in an accounting estimate should be accounted for in:*

(a) the period of change, if the change affects the financial results of that period only; or

(b) the period of change and applicable future periods, if the change affects the financial results of both current and future periods. [SEPT. 1997]

Disclosure of the nature and effect on the current period may be desirable for a change in an accounting estimate that is rare or unusual and that may affect the financial results of both current and future periods. On the other hand, disclosure is usually not necessary for a change in an estimate made each period in the course of accounting for normal operating activities, such as allowances for doubtful accounts.

CORRECTION OF AN ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS

.29 On rare occasions, an unintentional error is so material that the financial statements of prior periods can no longer be considered to have been fairly presented at the date of their issue. Such errors may occur from a mistake in computation affecting the financial statements, from a misinterpretation or misrepresentation of information, from an oversight of information available at the time the financial statements were prepared that ought to have been taken into account, or from a misappropriation of assets.

.30 *The amount of the correction of an error that impairs the fairness of financial statements of prior periods should be reported retroactively. Comparative information should be restated, unless it is impracticable to do so.* [SEPT. 1997]

.31 An issue raised with a public sector entity by its auditor in one period but not corrected by the public sector entity until a subsequent period is not an error, for purposes of this Section; the issue would be accounted for in the period in which the correction is made. [Former paragraph PS 2120.31, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

.32 A correction of an error needs to be distinguished from a change in an accounting estimate. An estimate made as part of the normal process of accounting, which is proved by subsequent events to be inaccurate, is not considered to be an error. A change in an accounting estimate results from new information, more experience or subsequent developments.

.33 The financial statements, including the comparative information for prior periods, are presented as if the error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included in the restated results for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted retroactively. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated. Depending on the nature of the error and how it was initially recognized, similar to the guidance in paragraph PS 2120.17A, an adjustment may be required to the opening balance of accumulated surplus or deficit and/or the relevant component of accumulated remeasurement gains or losses or accumulated other. [Former paragraph PS 2120.33, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.34 *When there has been a correction in the current period of an error in prior period financial statements, the following information should be disclosed:*

(a) a description of the error;

(b) the effect of the correction of the error on the financial statements of the current and prior periods; and

(c) the fact that the financial statements of prior periods that are presented have been restated.

Depending on the nature of the error, it may be appropriate to disclose the effect of its correction on significant items 3. [APRIL 2026] [Former paragraph PS 2120.34, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

PRIOR PERIOD ADJUSTMENTS

.35 *Financial statements of prior periods should be adjusted only for a change in an accounting policy or for a correction of an error in prior period financial statements, in accordance with this Section.* [SEPT. 1997]

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.36 When an entity chooses to amend an existing entity-developed accounting policy 4 for the sole reason of making it consistent with THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING IN THE PUBLIC SECTOR (the Conceptual Framework), this would be deemed a change in accounting policy and the entity would follow the requirements in this Section. An entity can choose to make this amendment before or once the Conceptual Framework is effective, for fiscal years beginning on April 1, 2026, or after.

.37 If an entity does not choose to amend its existing entity-developed accounting policies to make them consistent with the Conceptual Framework prior to or at the effective date of the Conceptual Framework, then the entity would need to develop a plan and a reasonable timeframe as to when its existing entity-developed accounting policies would be consistent with the Conceptual Framework. Amendments to existing entity-developed accounting policies to be consistent with the Conceptual Framework would be deemed a change in accounting policy and the entity would follow the requirements in this Section.

.38 When the entity chooses to amend existing entity-developed accounting policies for a reason currently allowed as a change in an accounting policy (paragraph PS 2120.02), the amended policies should be consistent with the Conceptual Framework even if the Conceptual Framework is not yet effective.

.39 The Conceptual Framework, issued in December 2022, added paragraphs PS 2120.36-.38.

.40 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 2120.06(b)-(c), PS 2120.15, PS 2120.17, PS 2120.33-.34 and added paragraphs PS 2120.06A and PS 2120.17A. The amendments are applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

Footnotes

1. Paragraphs 7.24-7.26 of the Conceptual Framework provide reasons, such as consistency and comparability, to support the disclosure of reclassifications of financial statement items.
2. That is, when moving from a non-GAAP basis of accounting or in circumstances other than those described in paragraph PS 2120.04.
3. For example, it may be appropriate to disclose the effect of the correction on the net financial assets or net financial liabilities.
4. An entity-developed accounting policy is defined in paragraph PS 1150.03(b).
