

**public sector accounting and auditing handbook  
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**HIGHLIGHT SUMMARY**

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE).

**Financial reporting entity, Section PS 1300**

This revised Section recommends which organizations should form part of the government's financial reporting entity and how those organizations should be accounted for in the government's financial statements. It also recommends how to account for other long-term investments and trusts. The Section applies to the federal, provincial, territorial and local governments and includes the following main Recommendations and guidance:

- The government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, or local government council, and are owned or controlled by the government.
- A government owns an organization when it has created or acquired the organization and, directly or indirectly, holds title to:
  - a majority of the organization's shares carrying the right to appoint at least a majority of the members of the board of directors; or
  - the organization's net assets such that the government has an ongoing right to access them.
- A government controls an organization when, without requiring the consent of others or changing existing legislative provisions, it has the authority to determine the financial and operating policies of that organization. The authority of a government to determine the financial and operating policies of an organization allows it to establish the fundamental basis for the conduct of the organization's financial affairs, as well as the deployment of its resources.
- Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government business enterprises.
- Government business enterprises should be accounted for by the modified equity method.
- A government business enterprise is an organization that has all of the following characteristics:
  - it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
  - it has been delegated the financial and operational authority to carry on a business;
  - it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
  - 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.
- Government financial statements should account for long-term investments in organizations that do not form part of the government reporting entity by the cost method.
- Trusts administered by a government should be excluded from the government reporting entity.

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