SECTION PS 2510
additional areas of consolidation

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PURPOSE AND SCOPE

.01 This Section establishes standards on the following consolidation issues that are rare or require particular consideration:

(a) accounting for governmental units with non-controlling interests;

(b) acquisitions of governmental units;

(c) sales of government investments in governmental units; and

(d) accounting for the change in status of a governmental unit to a government business enterprise.

.02 This Section should be read in conjunction with BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, which outlines the basic principles of consolidation involved in preparing government financial statements as required by GOVERNMENT REPORTING ENTITY, paragraph PS 1300.27. Nothing in this Section is intended to supersede BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500. The standards and guidance in this Section are intended to supplement and/or apply the basic steps of consolidation outlined in BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, to the consolidation issues specified. Together, these two Sections are intended to provide guidance on the preparation of government financial statements.

.03 This Section does not deal with accounting for:

(a) government business enterprises (see INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070); or

(b) portfolio investments (see PORTFOLIO INVESTMENTS, Section PS 3041).

DEFINITIONS

.04 The following definitions have been adopted for the purposes of this Section:

(a) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(b) A **non-controlling interest** is the equity of owners who do not hold the controlling interest in a governmental unit and is represented by the shares of a governmental unit that are owned by interests outside of the government reporting entity.

NON-CONTROLLING INTEREST

.05 *When a non-controlling interest exists in a governmental unit, the government reporting entity should include that governmental unit in its financial statements on a proportionate consolidation basis. The financial statements should disclose the existence and extent of a non-controlling interest in a governmental unit.* [MAY 1999]

.06 Using the proportionate consolidation method results in the government recognizing the following:

(a) Its proportionate share of any adjustments required to conform the accounting policies of the governmental unit to those of the government.

(b) Its proportionate share of the assets, liabilities and accumulated surplus / deficit of the governmental unit and any other applicable component of net assets or net liabilities, adjusted in accordance with (a). The government's consolidated statement of financial position would include these items on a line-by-line basis, after elimination of the government's proportionate share of inter-governmental unit balances in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraphs PS 2500.08-.18.

(c) Its proportionate share of the revenues or expenses and operating results of the governmental unit, adjusted in accordance with (a). The government's consolidated statement of operations and consolidated statement of changes in net assets or net liabilities would include these items on a line-by-line basis, after elimination of the government's proportionate share of inter-governmental unit transactions in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraphs PS 2500.08-.18.

[Former paragraph PS 2510.06, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.07 In this manner, the non-controlling interest in the assets, liabilities, accumulated surplus / deficit, and any other applicable component of net assets or net liabilities, revenues and expenses of the governmental unit is excluded from the financial statements. [Former paragraph PS 2510.07, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

Losses in a governmental unit with a non-controlling interest

.08 When a governmental unit in which there is a non-controlling interest incurs losses:

(a) the non-controlling interest shares in the losses incurred; and

(b) the government only recognizes its share of the losses in the financial statements.

When, however, the non-controlling interest in the governmental unit's accumulated losses equals its share of the capital of the governmental unit, no further share of losses can be attributed to the non-controlling interest. The non-controlling interest cannot be forced to contribute further capital to the governmental unit unless it has guaranteed obligations or is otherwise committed to further financial support of the governmental unit. If the governmental unit continues to operate in these circumstances it is usually being financed by advances from the government and the full risk of loss is attributable to the government. Subsequent earnings would be allocated entirely to the government until previously absorbed losses relating to the non-controlling interest are recovered.

.09 *When accumulated losses applicable to the non-controlling interest in a governmental unit exceed the non-controlling interest's share in the capital of the governmental unit, the excess and any further losses otherwise applicable to the non-controlling interest should be allocated only to the government's interest. Subsequent earnings should be allocated entirely to the government's interest until previously absorbed losses relating to the non-controlling interest are recovered.* [MAY 1999]

.10 *Government financial statements should disclose any accumulated losses accounted for in accordance with* PS 2510.09*.* [MAY 1999]

ACQUISITIONS

.11 Governments normally create governmental units, often through a restructuring of existing government resources, rather than acquire them. In the rare circumstances when a government acquires a governmental unit, the acquisition is normally made for policy reasons. An acquisition means that the government has acquired control of a governmental unit and the government, as the buyer, pays cash or other consideration to the seller either for shares representing voting control or for net assets.

.12 *Government financial statements should consolidate acquired governmental units line-by-line on a uniform basis of accounting, after eliminating inter-governmental unit transactions and balances in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraphs* PS 2500.08-.18*, and taking into account paragraph* PS 2510.31*.* [MAY 1999]

.13 When including acquired governmental units in their financial statements, governments would apply the mechanics of the purchase method of combination, with one exception: when the purchase cost exceeds the government's share of the fair value of the net assets of the acquired governmental unit, the excess would be recognized as an expense in the period of acquisition in accordance with paragraphs PS 2510.23-.24.

Applying the purchase method

Determining the purchase cost

.14 Under the purchase method, the government's interest in assets acquired and liabilities assumed is accounted for in the financial statements at the cost to the government. The consolidated operating results of the government would include the government's proportionate share of the results of the acquired governmental unit from the date of acquisition only.

.15 *The purchase cost of a governmental unit to a government should be determined by the fair value of the consideration given. In those cases where the fair value of the consideration is not clearly evident, the government's share of the fair value of the net assets acquired should be used as the purchase cost to the government.* [MAY 1999]

.16 The general principles to be applied in determining the purchase cost will depend upon the nature of the transaction. Where the consideration given is cash or other assets, the cost will be the amount of cash disbursed or the fair value of other assets distributed. Where debt securities are issued or liabilities incurred, the cost to the government will be the present value thereof.

.17 *The purchase cost and the amounts assigned to assets acquired and liabilities assumed should be determined as of the date of the acquisition.* [MAY 1999]

.18 *For the period in which a purchase of a governmental unit occurs, government financial statements should reflect the government's proportionate share of the results of the acquired governmental unit from the date of acquisition.* [MAY 1999]

Allocating the purchase cost

.19 At the date of acquisition, it will be necessary to assign the purchase cost to identifiable assets acquired (either individually or by type) and liabilities assumed. The government's interest in identifiable assets acquired and liabilities assumed would be based on their fair values at the date of acquisition. The allocation of the purchase cost would precede any adjustments which are necessary to put the accounting policies previously followed by the acquired organization on a common basis with those of the government.

.20 Any excess of the purchase cost over the government's interest in the amounts assigned to identifiable assets acquired less liabilities assumed would be considered to be a purchase premium which would be accounted for in accordance with paragraph PS 2510.23.

.21 Net assets acquired would not be recorded at more than cost. Accordingly, where the government's interest in the amounts assigned to identifiable assets acquired and liabilities assumed exceeds the purchase cost, it will be necessary to adjust such amounts to eliminate this excess. The allocation of the reduction to individual non-monetary assets or groups of non-monetary assets requires a re-examination of values previously assigned; this is a matter of judgment and should be determined having regard to the circumstances of the acquisition.

.22 *The government's interest in identifiable assets acquired and liabilities assumed should be based on their fair values at the date of acquisition. When there is a difference between the purchase cost and the government's share of the fair value of the net assets of the acquired governmental unit:*

(a) *any excess of the purchase cost over the government's interest in identifiable assets acquired and liabilities assumed, based on their fair values, should be accounted for as a purchase premium in accordance with paragraph* PS 2510.23.

(b) *such that the government's interest in the identifiable assets acquired and liabilities assumed, based on their fair values, exceeds the purchase cost, the amounts assigned to identifiable non-monetary assets should be reduced to the extent that the excess is eliminated.* [MAY 1999]

.23 *When the purchase of a governmental unit gives rise to a purchase premium, it should be recognized as an expense in the period of acquisition.* [MAY 1999]

.24 A purchase premium arising on acquisition of a governmental unit would be charged to expenses in the period of acquisition because the future net cash flows associated with a governmental unit, by definition, are unlikely to indicate that the purchase premium has been paid for anything but policy reasons. Governmental units receive funding from the government in order to pursue their activities and meet their debt requirements. Consequently, it is unlikely that the portion of the purchase cost related to the purchase premium could be tied to projected future profits from revenues received from sources external to the government reporting entity and so should be a cost of the period of acquisition.

Expenses related to the acquisition

.25 *Expenses directly incurred in effecting an acquisition of a governmental unit accounted for as a purchase should be included as part of the cost of the purchase.* [MAY 1999]

.26 The cost of the purchase includes expenses directly incurred by the government with respect to the acquisition. Such expenses will therefore be included in the amounts to be assigned to the individual assets acquired and liabilities assumed in accordance with paragraph PS 2510.22.

Inter-governmental unit transactions and balances

.27 *Balances at the date of acquisition between existing governmental units and a newly acquired governmental unit should be eliminated on consolidation.* [MAY 1999]

.28 At the date of acquisition, the government and an acquired governmental unit are considered to be a single economic entity. Therefore, any inter-governmental unit asset and liability balances between existing governmental units and the newly acquired governmental unit which are still present at the date of acquisition should be eliminated.

.29 Revenue and expense transactions occurring before the date of acquisition between existing governmental units and a newly acquired governmental unit would not be eliminated because at the time they occurred they were transactions between two independent entities dealing at arm's length.

.30 *When the carrying value of the assets of an existing governmental unit includes gains and losses arising from transactions with the newly acquired governmental unit which took place prior to the date of acquisition, such gains and losses should not be eliminated unless the transactions were made in contemplation of acquisition.* [MAY 1999]

.31 When, since the date of acquisition, depreciable tangible capital assets have been sold or transferred within the government reporting entity, the carrying value of such assets may include unrealized inter-governmental unit gains and losses. As such tangible capital assets will be depreciated in the financial statements on the basis of their cost to the government reporting entity, a complete elimination of inter-governmental unit gains and losses will necessitate the adjustment of the portion of the depreciation charges attributable to such gains and losses.

Presentation and disclosure of an acquisition

.32 *When a government acquires a governmental unit, the following should be disclosed:*

(a) *the name and a brief description of the governmental unit acquired and, when shares are acquired, the percentage of voting shares held;*

(b) *the date of acquisition and the period for which the results of the acquired governmental unit are included in the consolidated statement of operations;*

(c) *net assets acquired:*

(i) *total assets at the amount assigned thereto;*

(ii) *total liabilities at the amount assigned thereto; and*

(d) *the amount and type of consideration given, at fair value and the resulting amount of any purchase premium that has been charged to expenses in the period.* [MAY 1999]

SALE OF ALL OR PART OF A GOVERNMENT'S INVESTMENT IN A GOVERNMENTAL UNIT

.33 A government may sell all or part of its investment in a governmental unit. A government's investment in a governmental unit comprises the government's equity as a shareholder. Sales of government investments in governmental units are unusual transactions as many governmental units are integral to and derive their sole purpose from the legal or legislative responsibilities of government. Many governmental units would not, therefore, lend themselves to privatization or sale. In addition, governmental units with share capital are rare and, therefore, many of the capital transactions that would affect the ownership and control of a private sector corporation would not occur.

.34 *When all or part of a government's investment in a governmental unit is sold, the gain or loss on sale should be based on the carrying value of the governmental unit's net assets in the consolidated statement of financial position at the date of sale.* [MAY 1999]

.35 The estimate of the carrying value of a governmental unit at the date of sale would be the carrying value of the net assets of the governmental unit at the date of sale, after adjustments made in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.07(a) and (d).

.36 *The gain or loss on the sale of all or part of an investment in a governmental unit should be included in the determination of consolidated operating results in the period of sale.* [MAY 1999]

.37 When a government sells all or part of its investment in a governmental unit, one of three situations will arise:

(a) the entire investment in the governmental unit is sold;

(b) part of a government's investment in the governmental unit is sold, but the government still retains control of the governmental unit and, therefore, the governmental unit is still considered to be part of the government reporting entity; or

(c) part of a government's investment in the governmental unit is sold and the government no longer retains control of the entity and, therefore, the entity no longer forms part of the government reporting entity. [Former paragraph PS 2510.37(c), amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.38 When the entire investment in a governmental unit is sold on the same date, as could be the case when a government privatizes a governmental unit, the government would recognize a gain or loss on the sale in the period of sale and the entity would no longer be included as part of the government reporting entity. [Former paragraph PS 2510.38, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.39 When a government sells part of its investment in a governmental unit, but the government still retains control of the governmental unit, the governmental unit is still considered to be part of the government reporting entity, and it would be included in the financial statements on a proportionate consolidation basis in accordance with paragraph PS 2510.05.

.40 When part of a government's investment in a governmental unit is sold and as a result the government no longer retains control of the entity, that entity no longer forms part of the government reporting entity. If the remaining investment is determined to be a portfolio investment, it would be accounted for in accordance with PORTFOLIO INVESTMENTS, Section PS 3041, and FINANCIAL INSTRUMENTS, Section PS 3450. [Former paragraph PS 2510.40, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.41 When a governmental unit issues shares to interests outside the government reporting entity, the net effect of the change in the government's interest as a result of the share issue should enter into the determination of consolidated operating results.

WHEN A GOVERNMENTAL UNIT BECOMES A GOVERNMENT BUSINESS ENTERPRISE

.42 When the nature of a governmental unit changes so that it meets the definition of a government business enterprise, the organization would be accounted for as a government business enterprise by the modified equity method in accordance with GOVERNMENT REPORTING ENTITY, Section PS 1300. Accordingly:

(a) the organization would no longer be consolidated but would instead be accounted for by the modified equity method from the date its status changes to that of a government business enterprise; and

(b) the individual revenues and expenses of the organization would be included with those of the other governmental units and recognized in the consolidated statement of operations and the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component up until the date the status of the organization changed. From that date forward, the net income and other comprehensive income of the government business enterprise would be recorded in accordance with the modified equity method.

[Former paragraph PS 2510.42, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.43 In most cases, the change in status of a governmental unit to a government business enterprise will not be an observable event. The change may occur over time and, therefore, most governments would assess the status of their government organizations only at year end when the financial statements are being prepared. In such circumstances, it is acceptable for a government to account for the organization as a government business enterprise for the whole period in which the change in status is identified. When the change is the result of an observable event, however, a government would apply both consolidation and modified equity accounting to the organization in the period, as appropriate, in accordance with paragraph PS 2510.42. Similarly, if the government creates a government business enterprise from the existing resources of a governmental unit during the period, the consolidated statement of operations and the consolidated statement of changes in net assets or net liabilities would only report income and other comprehensive income from the government business enterprise subsequent to the date of its creation. [Former paragraph PS 2510.43, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.44 The financial position and results of prior periods would not be adjusted to reflect the change in status of the organization as if it had always been a government business enterprise. It is important for the financial statements to show that a governmental unit has changed its status to become a government business enterprise.

.45 *When a governmental unit changes in status to a government business enterprise, the change cannot:*

(a) create revenue; or

(b) result in reporting tangible capital assets that would improve the net financial position of the government reporting entity. [MAY 1999 *]

.46 Unrealized gains arising on tangible capital assets of a governmental unit that changes its status to a government business enterprise would be eliminated in order not to improve the government's net financial position merely as a result of the change in status.

.47 The situation in paragraph PS 2510.46 is analogous to transfers of assets from a governmental unit to a government business enterprise. When tangible capital assets are transferred, an unrealized increase in the financial position of the government may be created depending on the value at which the asset is transferred. Such unrealized gains on tangible capital assets would be eliminated when the modified equity method is applied to the new government business enterprise in preparing the government's financial statements.

.48 The amount of the elimination would vary depending on whether the asset of the former governmental unit is depreciable and, if so, the extent of the depreciation recorded on the asset by the government business enterprise.

(a) A depreciable asset: The amount of the elimination entry needed to eliminate the unrealized gain is reduced as the related asset is depreciated by the government business enterprise. As a result, the net financial position of the government is unaffected by the change in status of a governmental unit to a government business enterprise. In effect, the unrealized gain is "realized" on the same basis as the depreciable asset of the former governmental unit is consumed over time by a government business enterprise using it to generate cash inflows. The reduction in the amount of the elimination could be seen as a realization of the gain. Such "realization" would occur because, by definition, government business enterprises are self-sustaining from revenues received from outside of the government reporting entity. So, an unrealized gain eliminated in accordance with paragraph PS 2510.45 would be realized as the related asset fulfills its earning potential to the government business enterprise, not at the time of status change of the organization, when such earnings potential is only an assumption.

(b) A group of depreciable assets: Where a group of depreciable tangible capital assets of a former governmental unit comprises a significant number of relatively small dollar amounts, any related unrealized gain would be realized over the estimated useful life of the asset group, on the same basis as the asset group is depreciated by the government business enterprise.

(c) Sale of an asset: The need for an elimination entry to eliminate an unrealized gain related to a tangible capital asset of a former governmental unit would cease, and the unrealized gain would be realized to the extent of the sale proceeds, when a government business enterprise sells the asset to an entity outside of the government reporting entity. In most cases, an unrealized gain related to a non-depreciable asset would be realized only when the related asset is sold to an entity outside the government reporting entity.

.49 Any impairment or other adjustment made by a government business enterprise to the recorded value of a tangible capital asset of a former governmental unit would also affect the amount of the elimination entry needed to eliminate any unrealized gain arising on the asset.

.50 When a governmental unit changes in status to a government business enterprise, the investment in a government business enterprise measured by applying the modified equity method may differ from the amount otherwise included in the net financial position of the government reporting entity. This result may arise because in applying the modified equity method, accounting principles are no longer conformed with those of the government.

.51 *When the government's net investment balance increases or decreases because of a change in the status of a governmental unit to a government business enterprise, the amount of the increase or decrease should be accounted for as an adjustment to the opening balance of accumulated surplus / deficit. A description of the change, with details of changes to the recorded amounts of individual financial statement items, should be disclosed.* [OCT. 2006]

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.52 Paragraph PS 2510.51 applies when the government business enterprise has adopted the relevant financial instruments standard in Part I of the CPA Canada Handbook – Accounting.

.53 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 2510.06(b)-(c), PS 2510.07, PS 2510.42(b) and PS 2510.43. 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

* Editorial change — April 2006.
