

SECTION PS 3300 contingent liabilities

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PURPOSE AND SCOPE

- .01 This Section:
- (a) defines and establishes standards on how to account for and report contingent liabilities in public sector financial statements; but
 - (b) does not include standards for specific types of contingent liabilities, which are dealt with in individual CPA Canada Public Sector Accounting Handbook Sections.
- [Former paragraph PS 3300.01, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .02 It may be useful to read this Section in conjunction with LIABILITIES, Section PS 3200, and CONTRACTUAL OBLIGATIONS, Section PS 3390.

DEFINITION

- .03 **Contingent liabilities** are possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability. [Former paragraph PS 3300.03, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

CHARACTERISTICS OF CONTINGENT LIABILITIES

- .04 Contingent liabilities are distinct from liabilities as there is a degree of uncertainty as to whether a present obligation to sacrifice economic benefits exists at the financial statement date.
- .05 There are two basic characteristics of contingent liabilities:
- (a) there must be an existing condition or situation; and
 - (b) there must be an expected future event that will resolve the uncertainty as to whether a present obligation to sacrifice economic benefits exists.
- .06 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not of itself constitute the type of uncertainty that characterizes a contingent liability. For example, amounts owed for goods or services received but not billed are not contingent liabilities, even though the amounts may be estimated. There is nothing uncertain about the fact that these liabilities have been incurred; any uncertainty is related solely to the amounts thereof. Contingent liabilities are characterized by the uncertainty related to the existence of a liability at the financial statement date.

Existing condition or situation

- .07 For a contingent liability to be present there must be an existing condition or situation (event) at the financial statement date that indicates that a public sector entity may have a liability. The existing condition or situation could be, for example, an existing loan guarantee or an ongoing legal case. [Former paragraph PS 3300.07, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

- .08 A public sector entity may be involved in a lawsuit (the existing condition or situation), however, it may not be known with certainty whether this event will ultimately result in a liability. It is only the future event (the settlement of the suit) that will confirm that the public sector entity has a liability. [Former paragraph PS 3300.08, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or government officials may announce government intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent liability (see SUBSEQUENT EVENTS, Section PS 2400).

Confirming future event

- .10 For a contingent liability to exist there must also be an expected confirming future event(s) that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity has a liability at the financial statement date. The confirming future event does not create a liability – it only proves or disproves its existence at the financial statement date. [Former paragraph PS 3300.10, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .11 The future confirming event cannot be wholly within the control of the reporting public sector entity. Where a public sector entity has guaranteed a loan of another party, the future confirming event (default) is not within the control of that public sector entity. [Former paragraph PS 3300.11, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .12 Legislation may pass after the financial statement date but before the completion of the financial statements. The passing of such legislation is within the control of the reporting entity and hence it is not a confirming future event. However, it may be a subsequent event (see SUBSEQUENT EVENTS, Section PS 2400).

EXISTENCE UNCERTAINTY

- .13 The determination of whether a liability exists at the financial statement date depends on an assessment of the probability of a future event occurring or not occurring confirming that a liability existed at the financial statement date. The uncertainty relating to the occurrence or non-occurrence of the future event(s) can be expressed by a range of probabilities. Three areas of this range are as follows:
 - (a) likely — the probability of the occurrence (or non-occurrence) of the future event(s) is high;
 - (b) unlikely — the probability of the occurrence (or non-occurrence) of the future event(s) is slight; and
 - (c) not determinable — the probability of the occurrence (or non-occurrence) of the future event(s) cannot be determined.
- .14 Assessing the likelihood of the future confirming event occurring and estimating its financial effects are matters for judgment by those responsible for preparing the financial statements. In identifying contingent liabilities and determining their amount, consideration would be given to all information available prior to completion of the financial statements (see SUBSEQUENT EVENTS, Section PS 2400), supplemented by experience in similar transactions and, in some cases, reports from independent experts.

RECOGNITION

- .15 *A contingent liability should be recognized in the financial statements when:*
 - (a) *it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and*
 - (b) *the amount can be reasonably estimated.* [SEPT. 2004]
- .16 A condition or situation may exist at the financial statement date and, if it is likely that a future event will confirm the existence of a liability, accrual of its financial effects is required. This accounting treatment recognizes that the likely incurrence of a liability is related to a condition or situation existing at the financial statement date and not to the confirming future event.
- .17 A condition or situation may exist at the financial statement date; however, it is unlikely that a future event will confirm the existence of a liability. In this case, a contingent liability would not be accrued. A public sector entity may, for example, provide building inspections, but there is only a remote possibility that at some time in the future it could be found that a building inspection was carried out in a negligent manner. While there is a possibility that a public sector entity could be responsible in the future, given what is known at the financial statement date, the probability of a future confirming event happening is unlikely. [Former paragraph PS 3300.17, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .18 A condition or situation may exist at the financial statement date, but it is not determinable as to whether a liability exists. In this case, a contingent liability would not be accrued. A public sector entity may, for example, be involved in a lawsuit where the outcome of the claim cannot be determined as there is no clear evidence or precedent supporting the outcome one way or the other. While there is a possibility that the public sector entity could be responsible, there is no evidence that a liability existed at the financial statement date. [Former paragraph PS 3300.18, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

- .19 If there is conflicting or insufficient evidence on which to base a decision as to the outcome of a contingent liability, one or both of the conditions for accrual set out in paragraph PS 3300.15 may not be met. In these circumstances, accrual would be inappropriate.
- .20 A contingent liability continues to be recognized until it is settled or otherwise extinguished, or until the probability of the occurrence of the future confirming event is considered unlikely. Part of this process includes a requirement for continual assessment of the likelihood of the future confirming event occurring.
- .21 *A contingent liability should be derecognized when it is settled or otherwise extinguished, or when it is determined that the existence of a liability at the financial statement date is unlikely.* [SEPT. 2004]
- .22 Derecognition should not occur as a result of the likelihood of the future confirming event becoming undeterminable. Derecognition should only occur if the likelihood of the future confirming event becomes unlikely and if there is a reasonable expectation that this status will not change in the near future.
- .23 When it is determined that the future confirming event associated with the accrued contingent liability is unlikely to occur, the derecognition of the contingent liability should be accounted for in the current period and not as a prior period adjustment (see ACCOUNTING CHANGES, Section PS 2120).

MEASUREMENT

- .24 Continual assessment of the carrying amount of a contingent liability is required. When a change in an estimate of the amount of a contingent liability is required, it would be accounted for in accordance with ACCOUNTING CHANGES, Section PS 2120.
- .25 A recognized contingent liability may be mitigated by a counterclaim or another claim against a third party. In such a case, the amount of the recovery is an element of the contingent liability and would be taken into account in measuring the amount, provided that the probability of recovery is likely. If, however, the probability of success in the related action is less than likely, a potential recovery would not be taken into account. If there is a contingent liability resulting from litigation that is covered by insurance, for example, the recovery may be netted against the liability if the probability of recovery is likely.

PRESENTATION

- .26 In assessing the public sector entity's financial position and results, it is important to understand its risks and exposure to contingent liabilities. Regardless of whether contingent liabilities should be accrued, as a minimum, knowledge of the existence, nature and extent of these types of obligations is warranted because they indicate a possible claim on the economic resources of the public sector entity. The relevance of such information to the decision-making process arguably outweighs the inherent uncertainty. [Former paragraph PS 3300.26, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .27 *The existence of a contingent liability at the date of the financial statements should be disclosed in notes to the financial statements when:*
 - (a) *the occurrence of the confirming future event is likely but the amount of the liability cannot be reasonably estimated;*
 - (b) *the occurrence of the confirming future event is likely and an accrual has been made, but there exists an exposure to liability in excess of the amount accrued; or*
 - (c) *the occurrence of the confirming future event is not determinable.* [SEPT. 2004]
- .28 *The following information should be disclosed in notes or schedules relative to a contingent liability, unless its occurrence is unlikely:*
 - (a) *the nature;*
 - (b) *the extent, except in those cases where the extent cannot be measured or disclosure of the extent would have an adverse effect on the outcome;*
 - (c) *the reason(s) for any non-disclosure of the extent; and*
 - (d) *when an estimate of the amount has been made, the basis for that estimate.* [SEPT. 2004]
- .29 Disclosure of the nature of contingent liabilities includes a description of the circumstances giving rise to the uncertainty and information about the anticipated resolution of the uncertainty.
- .30 Disclosure of the extent of a contingent liability includes the public sector entity's best estimate and a range of possible amounts, unless it would have an adverse effect on the outcome. A financial statement user may not find disclosure of a broad range of amounts, which may extend from the minimum possible amount to the maximum possible amount, as useful as a narrower range that comprises what is reasonable. [Former paragraph PS 3300.30, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .31 It may also be useful to disclose the significant assumptions underlying the contingent liability that are subject to change, and the impact that a change would have on the estimate. Disclosure of the extent could also be accomplished by disclosing the maximum likely amount of the contingent liability, accompanied by an explanation of the significant factors that could affect the resolution of the contingent liability and the prospects that any contingent liability will be less than the maximum likely amount.

- .32 The level of detail disclosed by a public sector entity reflects the highly aggregated nature of financial statements. When deciding the level of detail to disclose, public sector entities consider the usefulness of the information to assessing the nature and extent of a public sector entity's contingent liabilities. In some cases, it may be useful to group similar items together. The level of disclosure also considers the sensitivity of the information. [Former paragraph PS 3300.32, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .33 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, contains guidance on how to classify liabilities including liabilities recognized under this standard.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

- .34 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, added paragraph PS 3300.33. The amendment is 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.

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