

SECTION PS 3050

loans receivable

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the 2024-2025 Annual Improvements to Public Sector Accounting Standards.

.26 A loan receivable should be recognized on a government's statement of financial position when:

- (a) the government assumes the risks associated with, and acquires the right to receive, repayment of principal and any related payments of interest; and
- (b) the amount of the loan can be reliably measured.

This normally coincides with the disbursement of funds, exchange of other assets, or assumption of liabilities. [APRIL 1993]

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SUPPLEMENT

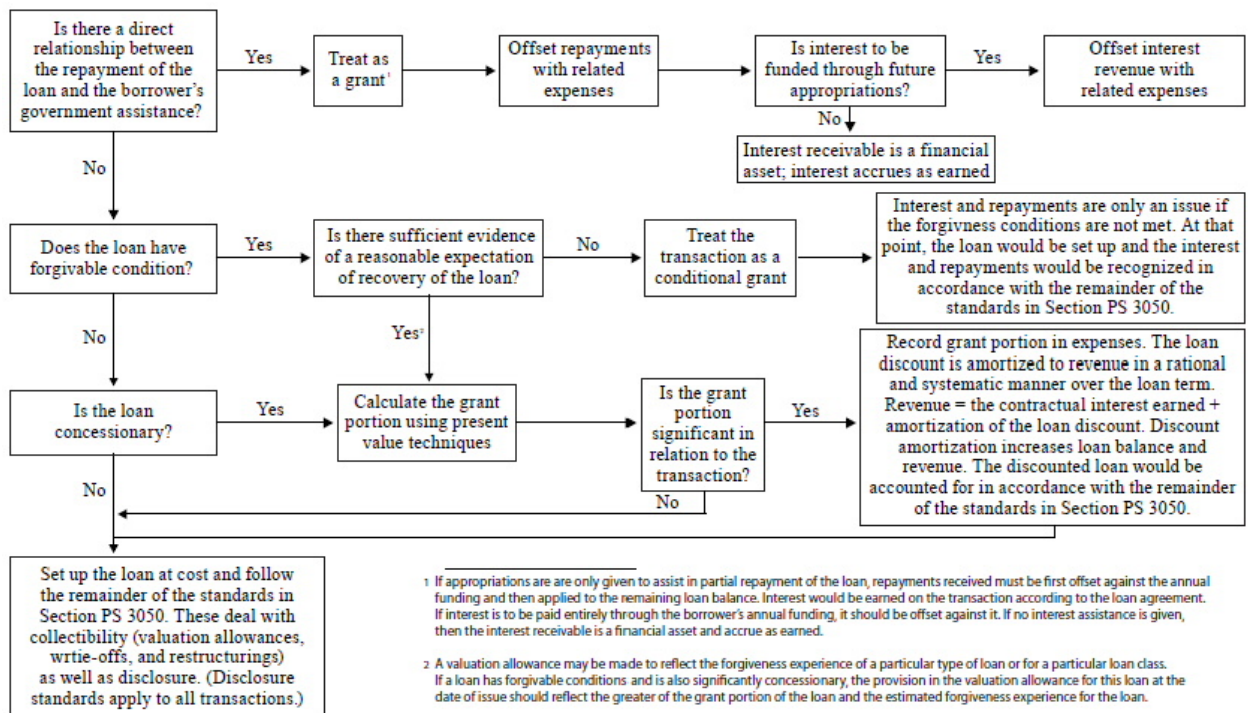
This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2022-2023 annual improvements.

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report loans receivable in government financial statements. 1
The standards apply to loans to borrowers outside of the government reporting entity. 2

APPENDIX A

DECISION TREE – LOANS



SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

.05 A loan receivable is a financial asset as defined in FINANCIAL STATEMENT PRESENTATION, paragraph 1201.003A(a). Key to the definition is the fact that financial assets provide resources to discharge existing liabilities or finance future operations. Many of the accounting issues related to government loans receivable hinge on this aspect of the loan receivable definition. [Former paragraph PS 3050.05, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.12 If a direct relationship can be established between the government assistance given to a borrower and repayment of the loan, the loan does not meet the definition of a financial asset. The government would not receive any resources from the loan transaction that could be used to discharge existing liabilities or finance future operations. Such transactions are in the nature of grants, and should be accounted for as expenses in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

.44 Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues. Interest is earned over the term of a loan according to the terms of the underlying agreement. Therefore, interest revenue should be recognized from the date of initial loan recognition, which is usually the date the funds are disbursed to the borrower (or the date of the exchange of other assets or assumption of liabilities).

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING.

.05 A loan receivable is a financial asset as defined in FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.40. Key to the definition is the fact that financial assets provide resources to discharge existing liabilities or finance future operations. Many of the accounting issues related to government loans receivable hinge on this aspect of the loan receivable definition.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended substantially as a consequence of approving FINANCIAL INSTRUMENTS, Section PS 3450.

.25 The preferred method of amortizing the loan discount is the effective interest rate method. This method is used to amortize bond discounts and premiums. Other methods, such as straight-line amortization, may also be appropriate. Regardless of the method, the amortization of the discount would be recorded as an increase in the loan balance and a credit to revenue.

.27 In most cases, a government assumes the risks and the repayment and interest rights associated with a loan when it disburses the funds to the borrower, or exchanges other assets, or assumes liabilities. At that point, the government has a financial asset because it has a financial claim on the borrower.

Note: Refer also to Handbook Revisions Release no. 34 (June 2011) and no. 35 (March 2012) for a complete listing of amendments related to the issuance of FINANCIAL INSTRUMENTS, Section PS 3450.

Footnotes

1. The term "financial statements" refers to summary the financial statements published by a government that report on present the financial position and changes in financial position of the government reporting entity.

2. The government reporting entity is defined in GOVERNMENT REPORTING ENTITY, Section PS 1300.

4. See FINANCIAL STATEMENT PRESENTATION, paragraph PS 1200.077.

3. The primary risk associated with a loan receivable is credit risk (i.e., the risk that principal and interest payments will not be received in accordance with the terms and conditions of the loan agreement), but there may also be interest rate or foreign currency exposure, depending on how the loan is structured.

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