

introduction to the public sector accounting handbook

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.

- .27 In developing its standards, PSAB recognizes that no rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case.

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.

- .11 These standards apply to all public sector entities that issue general purpose financial statements unless:
- (a) specifically directed or permitted to use alternative standards by PSAB, or
 - (b) limited in applicability as outlined in the individual Sections.
- When applying the CPA Canada Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150.
- .14 For purposes of preparing general purpose financial statements, governments apply the standards for governments in the PSA Handbook.
- .15 For purposes of preparing general purpose financial statements, government components 1 apply the standards for governments in the PSA Handbook.
- .17 For purposes of preparing general purpose financial statements, government business enterprises apply the standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting.
- .18 For purposes of preparing general purpose financial statements, government not-for-profit organizations apply the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 (the PS 4200 series). 2
- .19 For purposes of preparing general purpose financial statements, other government organizations would normally apply the standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. The standards determined to be most appropriate should be disclosed and consistently applied.
- .20 Determining the most appropriate standards for other government organizations requires the application of professional judgment. Factors to consider in assessing users' needs, in addition to those outlined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, include, but are not limited to, whether an organization:
- (a) has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - (b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses;
 - (c) has commercial-type operations and substantially derives its revenue from these activities; and
 - (d) receives limited government assistance on an ongoing basis.
- The degree of importance of these factors further depends on the particular circumstances in each case, including the nature of an organization's mandate and considering its purpose, objectives and limitations. In some situations, a particular factor may provide a high degree of evidence of the appropriateness of a particular set of standards whereas, in other situations, the importance of the same factor may not be as significant. Positive responses to one or a combination of these factors would indicate standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting may be more appropriate.
- .21 For purposes of preparing general purpose financial statements, partnerships between two or more public sector entities, 3 except for business partnerships, would normally apply the standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. Factors to consider in assessing users' needs are included in paragraph .20. The standards determined to be most appropriate should be disclosed and consistently applied.
- .22 For purposes of preparing general purpose financial statements, business partnerships between two or more public sector entities 4 apply the standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting.

- .23 The standards used by partnerships and business partnerships with one or more private sector partners is not specified by the PSA Handbook but, instead, determined by the partners.
- .24 The chart included as Appendix A to this Introduction is intended to assist in applying the appropriate standards to various types of public sector entities.
- .29 Italicized paragraphs issued after February 2002 have effective dates after which compliance with the principles expressed therein is required. Unless otherwise indicated, standards are effective with respect to financial statements and financial reports relating to years commencing on or after the first of the month noted beside the italicized paragraph. Standards being amended remain in force until the effective date of the amendments. In many cases, however, preparers will adopt new or amended standards before the effective date.
- .30 Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest. As a matter of policy, PSAB assesses the merits of proposed standards from a position of neutrality. That is, the soundness of standards is not evaluated on the grounds of their possible impact on behaviour. PSAB does not choose standards according to the kinds of behaviour it wishes to promote and the kinds it wishes to discourage. At the same time, it is admitted that some standards will often have the effect of influencing behaviour, and PSAB is alert to the economic impact of the standards that it promulgates. However, the justification for standards is conceptual and not in terms of their impact.
- .33 Consequential amendments may result from the issuance of a new standard or an amendment to an existing standard. Consequential amendments follow the same effective date and method of application as the new or amended standard which gave rise to the consequential amendments, unless otherwise determined by PSAB. Early adoption of a new or amended standard also requires the early adoption of all consequential amendments related to that standard. Consequential amendments are not available for early adoption if the amended standard has not been early adopted.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2018-2019 annual improvements.

- .01 The Public Sector Accounting Board (PSAB) issues standards and guidance with respect to matters of accounting in the public sector. PSAB issues such standards and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of good practice.
- ...
- .09 A **government partnership** is not a government organization but is a contractual arrangement between the government or a government organization and a party or parties outside of the reporting entity that has all of the following characteristics:
 - (a) The partners co-operate toward achieving significant, clearly defined common goals.
 - (b) The partners make a financial investment in the government partnership.
 - (c) The partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis.
 - (d) The partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

(These characteristics are explained in GOVERNMENT PARTNERSHIPS, paragraphs PS 3060.11.-28.)
- ...

ADDITIONS AND REVISIONS

- .31 Establishing standards for the public sector is an evolutionary process building on research, widespread experimentation, practical experience and consensus. As this process evolves, standards will be developed to respond to changing information needs. There will also be periodic review and amendment of material previously issued.
- .32 The approval of at least two-thirds of the members of PSAB is required for new standards and for changes in existing standards. PSAB issues public exposure drafts to ensure that those affected have the opportunity to comment on proposed standards before they are approved by PSAB.

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AUTHORITY

- .01 The Public Sector Accounting Board (PSAB) issues standards and guidance with respect to matters of accounting in the public sector. PSAB issues such standards and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of good practice.
- .02 PSAB's rules of membership and Terms of Reference are approved by the Accounting Standards Oversight Council.

APPLICATION

- .03 For purposes of applying these standards, "public sector" refers to federal, provincial, territorial and local governments, government organizations, government partnerships, and school boards.
- .04 Government organizations are organizations that are controlled by the government. Government organizations are included in the reporting entity. GOVERNMENT REPORTING ENTITY, Section PS 1300, provides guidance on the interpretation and application of control.
- .05 These standards apply to all governments unless specifically limited in individual Sections. 1
- .06 For purposes of their financial reporting, government business enterprises 2 should adhere to the standards applicable to publicly accountable enterprises in the CPA Canada Handbook – Accounting.
- .07 For purposes of their financial reporting, government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the CPA Canada Public Sector Accounting (PSA) Handbook or the standards in the CPA Canada PSA Handbook without Sections PS 4200 to PS 4270. 3
- .08 The standards in the CPA Canada PSA Handbook generally meet the needs of users of general purpose financial statements of other government organizations. When these standards do not meet these users' needs, the standards applicable to publicly accountable enterprises in the CPA Canada Handbook – Accounting should be considered. The basis of accounting determined to be most appropriate should be disclosed and consistently applied. 4
- .09 Determining the most appropriate basis of accounting for other government organizations requires the application of professional judgment. Factors to consider in assessing users' needs, in addition to those outlined in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, include, but are not limited to, whether an organization:
- (a) has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - (b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses;
 - (c) has commercial-type operations and substantially derives its revenue from these activities; and
 - (d) receives limited government assistance on an ongoing basis.
- The degree of importance of these factors further depends on the particular circumstances in each case, including the nature of an organization's mandate and considering its purpose, objectives and limitations. In some situations, a particular factor may provide a high degree of evidence of the appropriateness of a particular basis of accounting whereas, in other situations, the importance of the same factor may not be as significant. Positive responses to one or a combination of these factors would indicate standards applicable to publicly accountable enterprises in the CPA Canada Handbook – Accounting may be a more appropriate basis of accounting.
- .10 A government business enterprise is an organization that has all of the following characteristics:
- (a) It is a separate legal entity with the power to contract in its own name and that can sue and be sued.
 - (b) It has been delegated the financial and operational authority to carry on a business.
 - (c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity.
 - (d) 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.
- (Refer to GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.28–29.)
- .11 A government not-for-profit organization is an organization that has all of the following characteristics:
- (a) It has counterparts outside the public sector as defined in paragraph .03.
 - (b) It is an entity normally without transferable ownership interests.
 - (c) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
 - (d) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
- (Refer to FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph PS 4200.02.)
- .12 The chart included as Appendix A to this Introduction is intended to assist in applying the appropriate standards to various types of public sector entities.
- .13 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.14, describes the relationship between italicized and non-italicized paragraphs. The use of the term "standards" in the CPA Canada PSA Handbook refers to both italicized and non-italicized paragraphs.
- SIGNIFICANCE AND JUDGMENT**
- .14 These standards are not intended to apply to immaterial or insignificant items or matters.

- .15 In developing its standards, PSAB recognizes that no rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case.

EFFECTIVE DATE

- .16 Italicized paragraphs issued before February 2002 are dated to show when they were approved by PSAB. PSAB encourages the adoption of its standards as soon as practicable.
- .17 Italicized paragraphs issued after February 2002 have effective dates after which compliance with the principles expressed therein is required. Unless otherwise indicated, standards are effective with respect to financial statements and financial reports relating to years commencing on or after the first of the month noted beside the italicized paragraph. Standards being amended remain in force until the effective date of the amendments. In many cases, however, preparers will adopt new or amended standards before the effective date.

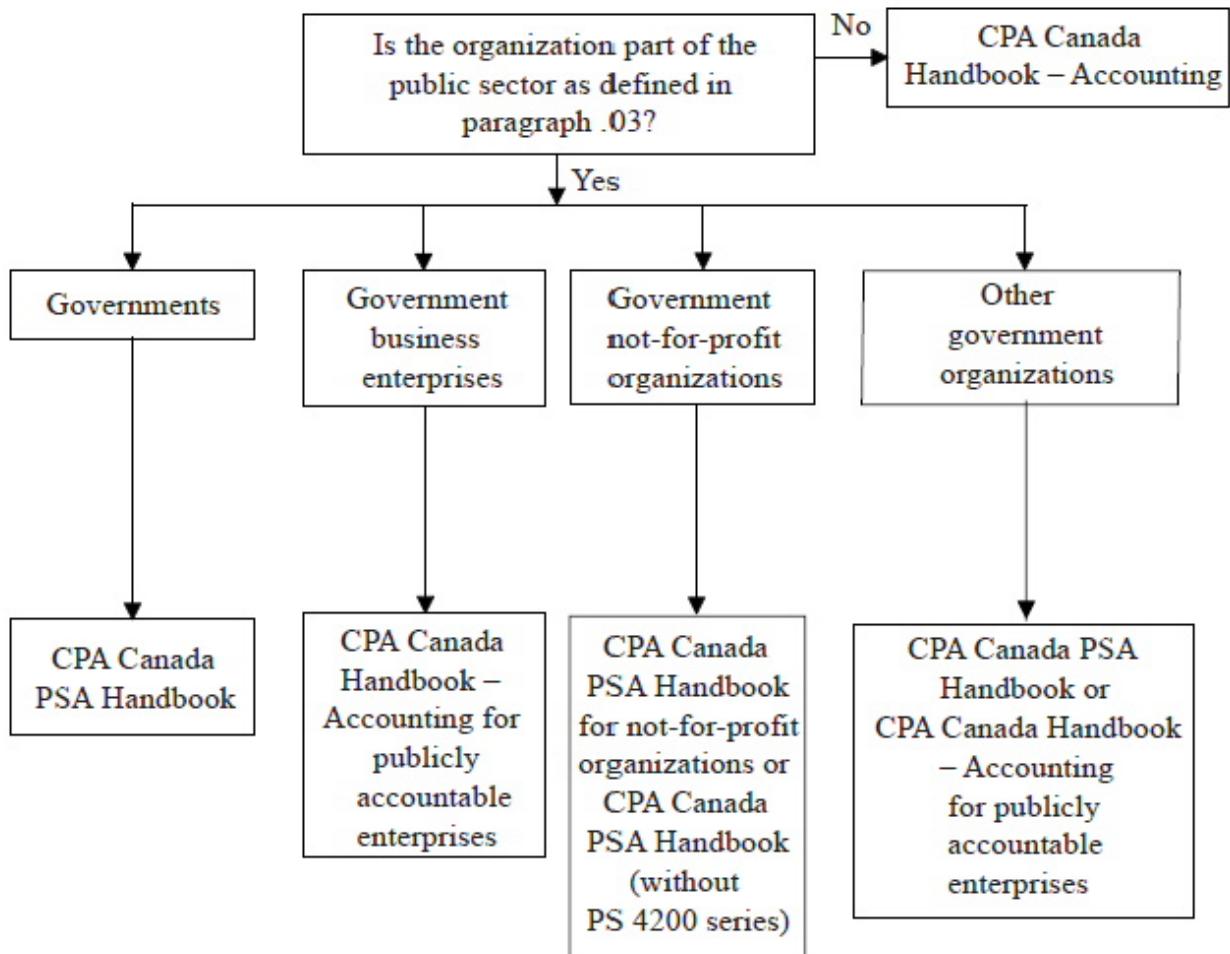
NEUTRALITY IN STANDARD SETTING

- .18 Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest. As a matter of policy, PSAB assesses the merits of proposed standards from a position of neutrality. That is, the soundness of standards is not evaluated on the grounds of their possible impact on behaviour. PSAB does not choose standards according to the kinds of behaviour it wishes to promote and the kinds it wishes to discourage. At the same time, it is admitted that some standards will often have the effect of influencing behaviour, and PSAB is alert to the economic impact of the standards that it promulgates. However, the justification for standards is conceptual and not in terms of their impact.

ADDITIONS AND REVISIONS

- .19 Establishing standards for the public sector is an evolutionary process building on research, widespread experimentation, practical experience and consensus. As this process evolves, standards will be developed to respond to changing information needs. There will also be periodic review and amendment of material previously issued.
- .20 The approval of at least two-thirds of the members of PSAB is required for new standards and for changes in existing standards. PSAB issues public exposure drafts to ensure that those affected have the opportunity to comment on proposed standards before they are approved by PSAB.
- .21 New or amended standards are identified in PUBLIC SECTOR ACCOUNTING HANDBOOK REVISIONS RELEASES. These Releases also provide a chronological record of superseded Handbook Sections.

APPENDIX A



PSAB reserves the right to recommend additional or different information to meet the special circumstances of government organizations.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs in other Sections that have been amended as a consequence of approving amendments to the Introduction to Public Sector Accounting Standards.

GOVERNMENT REPORTING ENTITY, Section PS 1300

- .07 *The government reporting entity should comprise the organizations that are controlled by the government.* [APRIL 2005]
- .27 *Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government business enterprises.* 2 [JUNE 1996]

FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125

- .01 The purpose of this Section is to ensure that a government organization's first financial statements, prepared in accordance with Public Sector Accounting Standards, contain high-quality information that:
 - (a) is transparent for users of the financial statements and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with Public Sector Accounting Standards; and
 - (c) can be generated at a cost that does not exceed the benefits to users.

Governments adopting Public Sector Accounting Standards for the first time would refer to ACCOUNTING CHANGES, Section PS 2120. Government business enterprises and other government organizations adopting the standards applicable to publicly accountable enterprises in the CPA Canada Handbook – Accounting would refer to International Financial Reporting Standard (IFRS) 1 *First-time Adoption of International Financial Reporting Standards*.

- .02 A government organization applies this Section to its first financial statements prepared in accordance with Public Sector Accounting Standards when transitioning from another basis of generally accepted accounting principles (GAAP). The

adoption of Public Sector Accounting Standards is to be accounted for by retroactive application with restatement of prior periods subject to the requirements in this Section.

BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

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

...

(c) A **government organization** is an organization that is controlled by the government. GOVERNMENT REPORTING ENTITY, Section PS 1300, provides guidance on the interpretation and application of control.

...

(e) A **governmental unit** is a government organization that is not a government business enterprise. Governmental units would include: government not-for-profit organizations and other government organizations such as government departments, funds, agencies, service organizations and boards.

GOVERNMENT PARTNERSHIPS, Section PS 3060

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

...

A **government partnership** is a contractual arrangement 2 between the government and a party or parties outside of the government reporting entity 3 that has all of the following characteristics:

- (a) the partners co-operate toward achieving significant clearly defined common goals;
- (b) the partners make a financial investment in the government partnership;
- (c) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and
- (d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the government partnership.

The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership. Government partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control.

INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070

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

...

(d) A **governmental unit** is a government component, government not-for-profit organization or other government organization.

Footnotes

1. Government components that adopt the standards issued by the Public Sector Accounting Board should do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted. Government components that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION, Section PS 2125.

2. Standards for not-for-profit organizations in the PSA Handbook include Sections PS 4200 to PS 4270. Only government not-for-profit organizations are permitted to follow these Sections. Government not-for-profit organizations should adopt the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 for fiscal periods beginning on or after January 1, 2012. Government not-for-profit organizations that change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION, Section PS 2125.

1. Partnerships that determine standards applicable to publicly accountable enterprises are most appropriate for their partnership should do so for fiscal periods beginning on or after January 1, 2017. Partnerships that adopt the standards issued by the Public Sector Accounting Board should also do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted.

Partnerships that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards issued by the Public Sector Accounting Board should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION, Section PS 2125.

4. Business partnerships that adopt the standards applicable to publicly accountable enterprises should do so for fiscal periods beginning on or after January 1, 2017. Earlier adoption is permitted. Business partnerships that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective.

1. Although specifically applicable to governments, standards may be applied to school boards if considered appropriate.
2. Government business enterprises should follow the same transitional provisions as determined by the Accounting Standards Board for publicly accountable enterprises. Government business enterprises should disclose this change in their basis of accounting in the periods preceding the period the change becomes effective.

3. Standards for not-for-profit organizations in the CPA Canada PSA Handbook include Sections PS 4200 to PS 4270. Only government not-for-profit organizations are permitted to follow these Sections. Government not-for-profit organizations should adopt the standards for not-for-profit organizations in the CPA Canada PSA Handbook or the standards in the CPA Canada PSA Handbook without Sections PS 4200 to PS 4270 for fiscal periods beginning on or after January 1, 2012. Government not-for-profit organizations that change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards for not-for-profit organizations in the CPA Canada PSA Handbook or the standards in the CPA Canada PSA Handbook without Sections PS 4200 to PS 4270 should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125.

4. Other government organizations that determine standards applicable to publicly accountable enterprises are most appropriate for their organization should follow the transitional provisions determined by the Accounting Standards Board. Other government organizations that adopt the standards issued by the Public Sector Accounting Board should do so for fiscal periods beginning on or after January 1, 2011. Other government organizations that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards issued by the Public Sector Accounting Board should be accounted for by retroactive application with restatement of prior periods in accordance with FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS, Section PS 2125.

2. In those circumstances where a non-controlling interest exists in a government organization that is not a government business enterprise, the organization would be included in the government's financial statements on a proportionate consolidation basis in accordance with ADDITIONAL AREAS OF CONSOLIDATION, Non-controlling interest, Section PS 2510.

2. A chart showing the various types of government contractual arrangements, including government partnerships, is included as Appendix A.

3. In arrangements where government employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a government partnership.

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