

accounting guideline

PSG-6

including results of organizations and partnerships applying fair value measurement

This Guideline is to be read in conjunction with the Introduction to Accounting Guidelines contained in the CICA Public Sector Accounting Handbook.

April 2006 *

PURPOSE AND SCOPE

- 1 The purpose of this Guideline is to provide guidance on how to account for and report government organizations and government partnerships in a government's financial statements that are reporting in accordance with:
 - (a) COMPREHENSIVE INCOME, CICA HANDBOOK – ACCOUNTING Section 1530;
 - (b) FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, CICA HANDBOOK – ACCOUNTING Section 3855; and
 - (c) HEDGES, CICA HANDBOOK – ACCOUNTING Section 3865.
- 2 The Introduction to Public Sector Accounting Standards requires government organizations that meet the definitions of government business enterprises or not-for-profit organizations to base their accounting policies on the CICA Handbook – Accounting. Government partnerships and other government organizations may elect to apply the CICA Handbook – Accounting based on their objectives and circumstances.

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Governmental units and government partnerships other than government business partnerships

- 3 The Introduction to Public Sector Accounting Standards defines government organizations as organizations that are controlled by the government. GOVERNMENT REPORTING ENTITY, Section PS 1300, requires governments to consolidate the financial statements of organizations comprising the government reporting entity except for government business enterprises. BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, defines governmental units as government organizations that are not government business enterprises.
- 4 BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.07, requires the accounting policies of governmental units to be conformed with those of the government. For those governmental units that base their accounting policies on the CICA Handbook – Accounting, consolidation adjustments may be required as a result of applying COMPREHENSIVE INCOME, Section 1530, FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855, and HEDGES, Section 3865. GOVERNMENT PARTNERSHIPS, Section PS 3060, requires proportionate consolidation for government partnerships other than government business partnerships, and similar adjustments may also be required.

Government business enterprises and government business partnerships

- 5 GOVERNMENT REPORTING ENTITY, paragraph PS 1300.34, states: "Because a government enterprise carries on a business, its financial statements should be prepared on the same basis as a private sector business." This is the most appropriate basis for measuring the government's investment in the organization and the impact it has on the government's financial position and results. Section PS 1300 requires that government business enterprises be accounted for by the modified equity method. Similarly, GOVERNMENT PARTNERSHIPS, Section PS 3060, requires a government accounting for its share of a government business partnership to apply the modified equity method. All subsequent references in this Guideline to government business enterprises include the government's share of any government business partnerships.
- 6 INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, paragraph PS 3070.05, states: "... the equity method of accounting is modified only to the extent that the government business enterprise's accounting principles are not adjusted to conform with those of the government."
- 7 Other comprehensive income comprises revenues, expenses, gains and losses recognized in comprehensive income but excluded from net income. As a result of applying the CICA Handbook – Accounting, government business enterprises may report other comprehensive income amounts in their financial statements.
- 8 Applying the principles set out in INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070, the carrying values of financial assets and financial liabilities reported by government business enterprises, which may

include fair value adjustments, would be reflected in the government's financial statements as a component of the investment in a government business enterprise. However, any resulting other comprehensive income would not be reported as part of income from an investment in a government business enterprise, as these amounts do not form part of net income.

- 9 The statement of operations would exclude the reporting of other comprehensive income as such amounts do not form part of revenues and expenses. A government reporting other comprehensive income is required to do so in a statement reconciling the change in accumulated surplus / deficit, and on the statement of changes in net debt.
- 10 Governments may choose to report items comprising other comprehensive income in aggregate, disclosing details in notes to the financial statements.

When a governmental unit becomes a government business enterprise

- 11 The nature of a governmental unit may change during the reporting period such that it meets the definition of a government business enterprise. In such circumstances, refer to ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.42-.51.

When an organization no longer meets the definition of a government business enterprise

- 12 Governments consolidating organizations that no longer meet the definition of a government business enterprise would refer to INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, paragraphs PS 3070.48-.56.
- 13 Government business enterprises may have recorded adjustments to measure certain financial assets and financial liabilities at fair value. In conforming the values of financial assets and financial liabilities held by a government organization when it ceases to be a government business enterprise, it is necessary to identify items measured at other than amortized cost. In resetting financial assets and financial liabilities to amortized cost, all accumulated other comprehensive income would be eliminated.

Inter-organizational bond holdings

- 14 Governments consolidating organizations holding bonds of a government business enterprise, or alternatively, government business enterprises holding bonds in a government organization, would refer to INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, paragraphs PS 3070.35-.39.

Footnotes

* Guideline revised February 2007.

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