

SECTION PS 3070 investments in government business enterprises

SUPPLEMENT

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

SALE OF ALL OR PART OF AN INVESTMENT IN A GOVERNMENT BUSINESS ENTERPRISE

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

- (c) **Government financial statements** are summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity through the consolidation of its governmental units and inclusion of its investments in government business enterprises on a modified equity basis. [Former paragraph PS 3070.03(c), amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

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.

- .08A The government's proportionate share of the government business enterprise's other comprehensive income is reported in the statement of remeasurement gains and losses.

- .58A *Other comprehensive income from investments in government business enterprises should be reported separately on the consolidated statement of remeasurement gains and losses.* [APRIL 2012]

- .59 A significant factor in evaluating income from investments in government business enterprises is the relationship of the income reported to the investments from which such income is derived. For this reason, investments in government business enterprises reported in the consolidated statement of financial position, income from investments in government business enterprises reported in the consolidated statement of operations and other comprehensive income reported in the consolidated statement of remeasurement gains and losses are reported as separate line items.

- .69 When a government acquires a government business enterprise, the following should be disclosed:

- (a) the name and a brief description of the government business enterprise 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 government business enterprise are included in the consolidated statement of operations and the consolidated statement of remeasurement gains and losses;
- (c) net assets acquired:
- (i) total assets at the government business enterprise's original carrying amount and at the amount assigned thereto, and
 - (ii) total liabilities at the government business enterprise's original carrying amount and at the amount assigned thereto;
- (d) the amount and type of consideration given, at fair value and the resulting amount of any purchase premium, together with the period of amortization; and
- (e) a description of the nature of the purchase premium, how the useful life of the purchase premium was determined and the method of amortization. [APRIL 2012]

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.

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

- (d) **A governmental unit** is a government component, 1 government not-for-profit organization or other government organization. Government business enterprises are not governmental units.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2019-2020 annual improvements.

- .60 *Government consolidated financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to government business enterprises. Such financial information should be provided on:*

...
(d) contractual obligations and contingencies;

- .66 In addition, because unrealized gains or losses on amounts that remain within the government reporting entity are eliminated, users need information on any adjustments that have been made to the reported net assets and net income of the government business enterprise. Furthermore, users need information on any contractual obligations and contingencies of government business enterprises to understand and assess the future revenue requirements of the government reporting entity.
- ...

SUPPLEMENT

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

- .02 This Section does not deal with accounting for:
- (a) other government organizations (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510); or
 - (b) government portfolio investments (see PORTFOLIO INVESTMENTS, Section PS 3041).
- .03 The following definitions have been adopted for the purposes of this Section:
- (a) **Fair value increments** are created upon the acquisition of an organization when the government's interest in the amounts assigned to identifiable assets acquired and liabilities assumed, based on their fair values at the date of acquisition, exceeds their carrying values in the accounts of the acquired organization at acquisition. Fair value increments are recorded as a component of the investment in a government business enterprise when a government business enterprise is included in government financial statements by the modified equity method. Those fair value increments related to depreciable assets are amortized over the useful lives of the related assets. Fair value increments do not adjust the carrying values of the identifiable assets acquired and liabilities assumed in an acquisition in the accounts of the acquired organization.
 - (b) A **government business enterprise** is a government organization that has all of the following characteristics:
 - (i) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
 - (ii) it has been delegated the financial and operational authority to carry on a business;
 - (iii) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
 - (iv) 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.

These criteria are explained in GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.29-31.

- (c) **Government financial statements** are summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity through the consolidation of all government organizations except government business enterprises, which are included on a modified equity basis.
- (d) A **governmental unit** is a government component, government not-for-profit organization or other government organization.

Inter-organizational transactions and balances

- .29 Inter-organizational transactions and balances are not eliminated under the modified equity method.
- .30 Inter-organizational gains and losses are, however, eliminated on assets remaining within the government reporting entity at the financial statement date. As a result, gains or losses related to sales and purchases of services for example, between a government business enterprise and other government organizations would not be eliminated when the government business enterprise is included in government consolidated financial statements by the modified equity method.

Inter-organizational bond holdings

- .35 From the point of view of the government reporting entity, constructive debt retirement occurs when:
- (a) another government organization purchases the bonds, notes or other debt instruments of a government business enterprise; or
 - (b) a government business enterprise purchases the bonds, notes or other debt instruments of another government organization,

from an organization external to the government reporting entity. The debt retirement is "constructive" because the debt remains outstanding from the viewpoint of the issuer as a separate legal entity and remains an investment from the point of view of the acquirer as a separate legal entity. As a result of such purchases, a constructive gain or loss, equal to the difference between the carrying value of the debt in the accounts of the issuer and the cost to the acquirer, is recognized in government consolidated financial statements at the date of acquisition. The gain or loss is "constructive" because it is realized and recognized at acquisition from the viewpoint of the government reporting entity, but no gain or loss is recognized at acquisition in the books of the issuing or the acquiring government organization. A constructive gain or loss arises because the acquirer has purchased the debt at a premium or discount and/or the issuer originally issued the debt at a premium or discount.

- .36 Neither the carrying values of the inter-organizational bond holdings between a government business enterprise and another government organization, nor the related interest income and expense would be eliminated when the government business enterprise is included in government consolidated financial statements by the modified equity method. However, the amortization of the premium or discount on the books of the acquirer and the amortization of the premium or discount on the books of the issuer would be eliminated. The eliminations would be reflected in the government's investment in a government business enterprise and its income from an investment in a government business enterprise.
- ...
- .60 *Government consolidated financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to government business enterprises. Such financial information should be provided on:*
- ...
- (c) *transactions and balances with other organizations included in the government reporting entity;*
- ...
- .64 Important information to be included in the condensed financial information about a government business enterprise is information concerning the repayment of the long-term debt of the government business enterprise. Such disclosure would include the aggregate amounts of the long-term debt to be repaid in each of the next five years and thereafter, that distinguishes between the repayments due on debt owed to other organizations in the government reporting entity and those due to parties external to the government reporting entity.
- .65 Government business enterprises may enter into significant transactions with other government organizations in the government reporting entity. Since the modified equity method of accounting does not eliminate inter-organizational transactions and balances, such as loans and advances, users need supplementary information to identify amounts owing to or receivable from, and revenues received from or paid to, other government organizations in the government reporting entity.
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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.

- .39 The application of paragraphs PS 3070.35-.38 to acquisitions of the debt of government organizations by government sinking funds is not addressed in this Section.
- .44 When a government sells a percentage of its shares in one of its government business enterprises or, when a government business enterprise issues shares to interests outside the government reporting entity, the nature of the organization as a government business enterprise does not necessarily change. As long as the government still retains control of the organization, it would continue to be accounted for as a government business enterprise on the modified equity basis. However, if the change in the government's interest in the government business enterprise means that its interest is no longer sufficient to represent control, the organization would no longer form part of the government reporting entity. In such circumstances, if the government's remaining investment meets the definition of a portfolio investment, it would be accounted for by the cost method in accordance with PORTFOLIO INVESTMENTS, Section PS 3040. The government would discontinue accruing its share of the income and losses of the organization. The income and losses that relate to the investment retained by the government and that were previously accrued would remain as a part of the carrying value of the investment. The investment would not be adjusted retroactively under these conditions. However, accumulated dividends received by the government in subsequent periods that exceed its share of accumulated earnings for such periods would be applied as a reduction of the carrying value of the investment.

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. A government component is defined in the Introduction to Public Sector Accounting Standards.

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