SECTION PS 3070
investments in government business enterprises

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report investments in government business enterprises in government financial statements by the modified equity method of accounting. GOVERNMENT REPORTING ENTITY, Section PS 1300, specifies the circumstances in which the modified equity method applies. This Section outlines how to apply the modified equity method to investments in government business enterprises. In addition, this Section addresses how to account for the change in status of a government business enterprise to a governmental unit. ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, deals with the change in status of a governmental unit to a government business enterprise.

.02 This Section does not deal with accounting for:

(a) governmental units (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510);

(b) a public sector entity's interests in partnerships (see INTERESTS IN PARTNERSHIPS, Section PS 3060); or

(c) portfolio investments (see PORTFOLIO INVESTMENTS, Section PS 3041).

[Former paragraph PS 3070.02, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

DEFINITIONS

.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 entity with the power to contract in its own name and that can sue and be sued; [Former paragraph PS 3070.03(b)(i), amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

(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 financial statements reports 1 published by a government that present 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, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.] [Former paragraph PS 3070.03(c), amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

(d) A **governmental unit** is a government component, 2 government not-for-profit organization or other government organization. Government business enterprises are not governmental units. [Former paragraph PS 3070.03(d), amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

(e) A **purchase premium** is any excess of a government's purchase cost of an acquired organization over the government's interest in the amounts assigned to identifiable assets acquired less liabilities assumed of the organization based on their fair values at the date of acquisition. A purchase premium is sometimes called "goodwill".

(f) A **purchase price discrepancy** is any excess of a government's purchase cost of an acquired organization over the government's interest in the carrying values of the identifiable assets acquired and liabilities assumed in the accounts of the acquired organization at acquisition. A purchase price discrepancy equals the sum of any fair value increments recorded in an acquisition plus any purchase premium arising on the acquisition.

[Former paragraph PS 3070.03 retained in Archived Pronouncements.]

METHOD OF ACCOUNTING

.04 GOVERNMENT REPORTING ENTITY, paragraph PS 1300.35, states:

"*Government business enterprises should be accounted for by the modified equity method*."

.05 Under the modified equity method, 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. Thus, the government aggregates a government business enterprise's net assets and net income by adjusting the investment shown in the government's consolidated statement of financial position and by presenting the net income as a separate item on the government's consolidated statement of operations.

.06 The modified equity method would be applied from the date:

(a) the government acquired or created a government business enterprise;

(b) when a governmental unit changed in status to become a government business enterprise as described in ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510; and

(c) a government applies GOVERNMENT REPORTING ENTITY, Section PS 1300, for the first time. 3

Investment in a government business enterprise

.07 The investment in a government business enterprise, as reflected in government financial statements under the modified equity method, includes the cost of the government's investment in the government business enterprise, calculated in accordance with paragraphs PS 3070.10-.11, and, subsequent to the date when the use of the modified equity method first became appropriate, also includes adjustments for:

(a) the government's proportionate share of the earnings of the government business enterprise after discontinued operations and extraordinary items of the government business enterprise;

(b) the government's proportionate share of dividends paid or payable by the government business enterprise;

(c) the government's proportionate share of prior period adjustments (i.e., a change in an accounting policy or a correction of an error relating to prior period financial statements), capital transactions, accumulated other comprehensive income and cumulative foreign currency translation adjustments of the government business enterprise;

(d) the accumulated amortization of any purchase premium and/or fair value increments on depreciable assets related to an acquired government business enterprise;

(e) the elimination of any unrealized inter-organizational gains and losses on assets remaining within the government reporting entity at the financial statement date;

(f) any gains or losses arising on inter-organizational bond holdings; and

(g) any impairments in the value of the purchase price discrepancy component of a government's investment in an acquired government business enterprise recognized by the government since acquisition.

Income from an investment in a government business enterprise

.08 Under the modified equity method, income from an investment in a government business enterprise as reported in government financial statements includes the government's proportionate share of the government business enterprise's earnings, calculated based on earnings after discontinued operations and extraordinary items of the government business enterprise in the period, and also includes adjustments for:

(a) the amortization of any purchase premium, in relation to an acquired government business enterprise, over the lesser of its life and 20 years;

(b) the amortization of any fair value increments on depreciable assets, in relation to an acquired government business enterprise, over the useful lives of the related assets;

(c) the elimination of any unrealized inter-organizational gains and losses on assets remaining within the government reporting entity at the financial statement date;

(d) any gains or losses arising on inter-organizational bond holdings; and

(e) any write-downs associated with any impairments in the value of the purchase price discrepancy part of a government's investment in an acquired government business enterprise recognized by the government in the period.

.08A The government's proportionate share of the government business enterprise's other comprehensive income is reported in the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component. [Former paragraph PS 3070.08A, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.09 Income from an investment in a government business enterprise is recognized by the government when it is earned by the government business enterprise and not when dividends are declared by the government business enterprise. Under the modified equity method, such dividends represent the conversion, first into dividends receivable and then into cash, of the increase in the investment already recognized by the government.

Cost of the investment

.10 For created government business enterprises, the cost of the government's investment in a government business enterprise is the carrying value of the net assets transferred to the government business enterprise as reflected in the consolidated statement of financial position at the date the government business enterprise is created. Using the carrying value specified means that any tangible capital assets transferred to the government business enterprise from a governmental unit on creation of the government business enterprise would be accounted for as described in paragraphs PS 3070.32-.33.

.11 For acquired government business enterprises, the cost of the government's investment is the purchase cost of the acquisition. The purchase cost to the government is the sum of the fair value of the consideration given in the acquisition plus the expenses directly incurred by the government to effect the acquisition. At the date of acquisition, the total purchase cost is assigned to identifiable assets acquired and liabilities assumed. The government's interest in identifiable assets acquired and liabilities assumed would be based on their fair values at the date of acquisition. Any excess of the purchase cost over the government's interest in the amounts assigned to identifiable assets acquired less liabilities assumed would be considered to be a purchase premium which would be accounted for in accordance with paragraph PS 3070.17. The components of a government's investment in an acquired government business enterprise include, therefore:

(a) the unamortized portion of any purchase premium;

(b) the unamortized portion of any fair value increments; and

(c) the government's share of the carrying value of the net assets of the government business enterprise, adjusted for inter-organizational gains and losses on assets remaining within the reporting entity at the financial statement date and any gains or losses arising on inter-organizational bond holdings.

The total of components (a) and (b) comprise the remaining balance of any purchase price discrepancy.

.12 At the date of acquisition, the government reporting entity and an acquired government business enterprise are considered to be a single economic entity. Because government business enterprises are accounted for in government financial statements using the modified equity method, any inter-organizational receivable and payable balances between the government reporting entity and the newly acquired government business enterprise which are still present at the date of acquisition are not eliminated, as they would be if the acquired organization was being consolidated.

.13 Sometimes the carrying value of the assets of the government reporting entity or the acquired government business enterprise includes gains and losses arising from transactions between the two entities prior to the date of acquisition. Since transactions that took place prior to the date of acquisition are ordinarily assumed to have taken place at arm's length, the amounts involved in such transactions constitute objective evidence of value. Accordingly, such gains and losses would not be eliminated when a government business enterprise is included in government financial statements using the modified equity method, unless the related transactions were made in contemplation of acquisition.

.14 *When the carrying value of the assets of the government reporting entity or the acquired government business enterprise include gains and losses arising from inter-organizational transactions which took place prior to the date of acquisition, such gains and losses should not be eliminated unless the transactions were made in contemplation of acquisition.* [APRIL 2000]

Expenses related to the acquisition

.15 *Expenses directly incurred in effecting an acquisition of a government business enterprise should be included as part of the cost of the purchase.* [APRIL 2000]

.16 The cost of the purchase includes expenses directly incurred by the government with respect to the acquisition. Direct expenses consist of incremental costs incurred to acquire the government business enterprise. Only costs that are incurred because of the acquisition are recognized; examples of such costs are finder's fees and other amounts paid to lawyers, accountants, appraisers and other consultants. Allocations of internal costs are not incremental costs and are recognized as expenses as incurred.

Purchase premium

.17 *A purchase premium arising on the acquisition of a government business enterprise should be deferred and amortized to the government's income from an investment in a government business enterprise. The amortization period should be the lesser of the life of the purchase premium and twenty years. The method of amortization should be:*

- *(a) the straight line method; or*
- *(b) another systematic method when it can be demonstrated to be more appropriate in the circumstances than the straight line method.* [APRIL 2000]

.18 In order for a purchase premium to be deferred and recorded as a component of a government's investment in a government business enterprise and then amortized over future periods, the government business enterprise must have in place a realistic and specific business plan 4 that demonstrates that the projected future results of operations of the government business enterprise would be sufficient to recover the purchase premium over its amortization period. The absence of such evidence would indicate that the purchase premium should not be deferred but should be charged to expenses at acquisition.

Fair value increments

.19 *Fair value increments related to depreciable assets should be amortized to the government's income from an investment in a government business enterprise over the estimated useful lives of the related assets.* [APRIL 2000]

Loss in value of an investment in a government business enterprise

.20 A government's investment in a created government business enterprise, or the value of the part described in paragraph PS 3070.11(c) of a government's investment in an acquired government business enterprise, is not likely to be impaired without calling into question the status of the organization as a government business enterprise. A government organization meeting conditions that may indicate impairment of a portfolio investment, as outlined in PORTFOLIO INVESTMENTS, paragraphs PS 3041.09-.11, would be unlikely to meet the narrow financial sustainability criterion in the definition of a government business enterprise. Permanent impairments in the value of a purchase price discrepancy part of an investment in a government business enterprise are, however, possible.

.21 A purchase price discrepancy would become permanently impaired when:

- (a) the projected future results of operations of the government business enterprise, as evidenced by a specific and realistic business plan, will be insufficient to recover the purchase price discrepancy over its average remaining amortization period; or
- (b) the value of any underlying assets are permanently impaired.

.22 *When there has been a permanent impairment in value of the unamortized balance of a purchase price discrepancy, it should be written down. The write-down should be charged against the government's income from an investment in a government business enterprise.* [APRIL 2000]

.23 *A write-down of a government's investment in a government business enterprise to reflect a loss in value should not be reversed.* [APRIL 2000]

.24 On a regular basis, or when specific circumstances warrant, a re-evaluation of the projected future results of operations of a government business enterprise would be made to determine whether they will be sufficient to recover any unamortized balance of a purchase price discrepancy over its average remaining amortization period.

.25 In a period that it is determined that the evidence no longer supports the carrying value of a purchase price discrepancy, the government would write down or write off the remaining balance to its income from an investment in a government business enterprise. In such circumstances, an assessment of whether the acquired organization continues to meet the definition of a government business enterprise may also be appropriate.

.26 When an acquired government business enterprise disposes of assets to which fair value increments have been assigned by the government, the related unamortized fair value increments would be written off and charged to the government's income from an investment in a government business enterprise in the period of disposal. When an acquired government business enterprise disposes of assets with which a purchase premium was specifically identified by the government at acquisition, the related unamortized purchase premium would be written off and charged to the government's income from an investment in a government business enterprise in the period of disposal.

.27 Conditions that may also indicate a write-down of a purchase price discrepancy is appropriate include:

(a) The probability of the occurrence of an assumed event that was significant in setting the acquisition price has changed significantly from the time the price was set.

(b) An unfavourable change has occurred in the status of, or expectations about, one or more of the underlying elements of the purchase price discrepancy.

.28 When a government writes down a purchase price discrepancy, the amortization periods for any remaining unamortized purchase premium and/or fair value increments would be reconsidered.

Intra-government reporting entity transactions and balances

.29 Intra-government reporting entity transactions and balances are not eliminated under the modified equity method. For example, gains or losses related to sales and purchases of services 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. [Former paragraph PS 3070.29, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.30 Intra-government reporting entity gains and losses are, however, eliminated on assets remaining within the government reporting entity at the financial statement date. [Former paragraph PS 3070.30, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.31 For financial assets, such as inventories for resale, that are transferred between a governmental unit and a government business enterprise, unrealized gains or losses may occur. The existence of unrealized losses may indicate a permanent decline in the value of the relevant assets. It may be necessary to recognize this decline by writing down such assets.

.32 Transfers of assets from a governmental unit to a government business enterprise normally result in an increase to the assets and contributed surplus of the government business enterprise. When tangible capital assets are transferred, an unrealized increase in the financial position of the government reporting entity may be created. When tangible capital assets are transferred to a government business enterprise, they are recorded by the government reporting entity as an investment and reported as a financial asset in government consolidated financial statements. Any unrealized gains on tangible capital assets would be eliminated when the government business enterprise is included in government consolidated financial statements on a modified equity basis.

.33 The situation in paragraph PS 3070.32 is analogous to that which arises regarding tangible capital assets when a governmental unit changes in status to be a government business enterprise as described in ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.46-.49. The amount of the adjustment to eliminate an unrealized gain arising on the transfer of a tangible capital asset to a government business enterprise in any given period would vary depending on whether the transferred asset is depreciable and, if so, the extent of the depreciation recorded on the asset by the government business enterprise. Any impairment or other adjustment made by a government business enterprise to the recorded value of a tangible capital asset transferred from a governmental unit to the government business enterprise would also affect the amount of the elimination entry.

.34 *The transfer or sale of a tangible capital asset from a governmental unit to a government business enterprise should not improve the net operating results of the period or otherwise improve the net financial position of the government reporting entity.* [APRIL 2000]

Intra-government reporting entity bond holdings

.35 From the point of view of the government reporting entity, constructive debt retirement occurs when:

(a) another entity within the government reporting entity 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 entity within the government reporting entity

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 or government component. 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. [Former paragraph PS 3070.35, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.36 Neither the carrying values of the intra-government reporting entity bond holdings, 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. [Former paragraph PS 3070.36, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.37 Because the debt remains outstanding from the viewpoint of the acquirer and the issuer, they would continue to account for the portion of the debt deemed to be constructively retired, and any related premiums or discounts, and would, therefore, recognize the constructive gain or loss in their own accounts over the period to the maturity or sale of the debt. As the constructive gain or loss was recognized by the government reporting entity in the period the debt was constructively retired, elimination of the gain or loss being recognized by the acquirer and the issuer in each subsequent accounting period through the amortization of any premium or discount related to the debt will be required when the government business enterprise is included in government consolidated financial statements by the modified equity method. In making such eliminations, the government's proportionate ownership of the government business enterprise would need to be taken into account when the government business enterprise is the issuer of the debt.

.38 Regardless of whether the government or a government business enterprise is the acquirer in such a transaction, the government's investment in a government business enterprise and its income from an investment in a government business enterprise would be adjusted to recognize the constructive gain or loss in government consolidated financial statements in the year of the acquisition. In recognizing the gain or loss, the government's proportionate ownership of the government business enterprise would need to be taken into account when the government business enterprise is the issuer of the debt.

(paragraph PS 3070.39 deleted) [Former paragraph PS 3070.39 retained in Archived Pronouncements.]

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

.40 *When all or part of a government's investment in a government business enterprise is sold, for the purposes of calculating a gain or loss on the sale of an investment, the cost of the portion of the total investment sold should be calculated on the basis of the carrying value of the investment at the date of sale.* [APRIL 2000]

.41 *The gain or loss on the sale of all or part of a government's investment in a government business enterprise should be included in the determination of consolidated operating results in the period of sale.* [APRIL 2000]

.42 When a government's entire investment in a government business enterprise is sold on the same date, such as when a government privatizes one of its business enterprises, the government would recognize a gain or loss on the sale and the investment would no longer be included as part of its financial position. Income from an investment in a government business enterprise would be recognized up to the date of sale and a gain or loss on sale recognized at the date of sale.

.43 When a government disposes of a large segment of an acquired government business enterprise, or an entire acquired government business enterprise, any related unamortized purchase premium and/or fair value increments would be taken into account in determining the gain or loss on disposal.

.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 in accordance with PORTFOLIO INVESTMENTS, Section PS 3041, and FINANCIAL INSTRUMENTS, Section PS 3450. 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. [Former paragraph PS 3070.44 retained in Archived Pronouncements.]

STATEMENTS AT DIFFERENT DATES

.45 A difference in fiscal periods of the government reporting entity and a government business enterprise does not justify the exclusion of the government business enterprise from government consolidated financial statements. Normally the government business enterprise can prepare for the purposes of government consolidated financial statements, financial statements for its own operations for a period which exactly or nearly coincides with the fiscal period of the government reporting entity.

.46 *When, for purposes of preparing government consolidated financial statements, it is not possible to use financial statements of a government business enterprise for a period which substantially coincides with that of the government's consolidated financial statements, this fact, and the period covered by the financial statements of the government business enterprise that are used, should be disclosed.* [APRIL 2000]

.47 *When the fiscal periods of the government reporting entity and a government business enterprise are not the same, events relating to, or transactions of, the government business enterprise that have occurred during the intervening period and significantly affect the consolidated financial position or results of operations of the government reporting entity should be recorded in government consolidated financial statements.* [APRIL 2000]

WHEN AN ORGANIZATION NO LONGER MEETS THE DEFINITION OF A GOVERNMENT BUSINESS ENTERPRISE

.48 The circumstances affecting a government organization may change so that it no longer meets the definition of a government business enterprise. Failure to meet any of the four characteristics of the government business enterprise definition would require such a change in status of the enterprise.

.49 When the nature of a government organization changes such that it no longer meets the definition of a government business enterprise, the organization would become a governmental unit and would be consolidated in government financial statements in accordance with BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500 and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, instead of being accounted for on a modified equity basis.

.50 When the change in status of a government business enterprise to a governmental unit is the result of an observable event, a government would apply both modified equity and consolidation accounting to the organization in the period, as appropriate. The individual revenues and expenses of the former government business enterprise would be included with those of the other governmental units and recognized in the consolidated statement of operations subsequent to the date the status of the organization changes. Prior to the date of change, only income from an investment in a government business enterprise would be recorded, calculated in accordance with the modified equity method.

.51 When the change in status of a government business enterprise to a governmental unit is not a specific observable event, but occurs over time, a government would account for the organization as a governmental unit for the reporting period in which the change in status occurs.

.52 When an organization ceases to meet the definition of a government business enterprise and that organization applies accounting policies that differ from those of the government reporting entity, the accounting policies of that organization must be conformed to those of the government reporting entity for the purposes of its consolidation in government financial statements. For example, when an acquired government business enterprise changes its status to a governmental unit, any remaining unamortized purchase premium would be written off to consolidated operating results in the period the status changed in accordance with the accounting treatment for purchase premiums required by ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510.

.53 *In the period that a government organization no longer meets the definition of a government business enterprise, the effect of conforming its accounting policies to those of the government reporting entity for the purposes of consolidation should be included in the determination of consolidated operating results.* [APRIL 2000]

.54 When part of a government business enterprise, such as a division or other discrete part of the entity, is sold, but the government still retains control of the organization that remains, that organization is still considered to be part of the government reporting entity. If the part of the organization that remains does not on its own meet the definition of a government business enterprise, it would be consolidated in government financial statements. If the part of the organization that remains continues on its own to meet the definition of a government business enterprise, it would continue to be accounted for on the modified equity basis as a government business enterprise.

.55 When the circumstances affecting a government organization change so that it no longer meets the definition of a government business enterprise, the change in accounting treatment would not be applied retroactively. The alteration of an accounting treatment necessitated by events or transactions that reflect a difference in substance from those previously occurring is not considered to be a change in accounting policy 5 or a change in classification. 6 The financial position and results of prior periods would not be adjusted to reflect the change in status of the organization as if it had always been a governmental unit. It is important for government consolidated financial statements to show that a government business enterprise has changed its status to become a governmental unit.

.56 *When the circumstances affecting a government organization change such that it no longer meets the definition of a government business enterprise, the resulting change in accounting treatment, the underlying reasons for the change, and the financial effect of the change should be disclosed.* [APRIL 2000]

PRESENTATION

.57 *A government's investment in government business enterprises should be reported separately on the consolidated statement of financial position.* [APRIL 2000]

.58 *Income from investments in government business enterprises should be reported separately on the consolidated statement of operations.* [APRIL 2000]

.58A *Other comprehensive income from investments in government business enterprises should be reported separately on the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [APRIL 2026] [Former paragraph PS 3070.58A, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.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 changes in net assets or net liabilities in the accumulated remeasurement gains and losses component are reported as separate line items. [Former paragraph PS 3070.59, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

Disclosure

.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:*

- *(a) the financial position and results of operations, including:*
  - *(i) total assets and liabilities segregated by main classification;*
  - *(ii) net assets or liabilities, separately displaying accumulated other comprehensive income;*
  - *(iii) total revenues and expenses;*
  - *(iv) net income or loss for the period; and*
  - *(v) other comprehensive income for the period;*
- *(b) the nature and amount of any adjustments of the net assets or the net income, as shown in the government business enterprises' financial statements, to arrive at the amount included in the government's consolidated statement of financial position and the consolidated statement of operations;*
- *(c) transactions and balances with other entities included in the government reporting entity;* [Former paragraph PS 3070.60(c), amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]
- *(d) contingent assets, contingent liabilities, contractual rights and contractual obligations;* [Former paragraph PS 3070.60(d), amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]
- *(e) the nature and terms of any government guarantees relating to outstanding debt issued by the government business enterprise; and*
- *(f) the government's percentage ownership of any government business enterprise that the government does not wholly own.* [OCT. 2006]

.61 Using the modified equity method, when supplemented with disclosure of condensed financial information relative to government business enterprises, gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of government business enterprises. It provides a measure of the impact government business enterprises may have on a government's ability to discharge its liabilities or to provide financial resources for future operations.

.62 Users of financial statements need an appreciation of the magnitude of financial activities conducted by government business enterprises and the effect of their operations on the government reporting entity. Accounting for government business enterprises by the modified equity method reports only their aggregated net assets and changes in net assets in government financial statements. Consequently, it is important to provide condensed supplementary information on their financial position and operating results. Such information could be presented by individual government business enterprises or grouped by major lines of business, such as public utilities, transportation, communications, insurance and finance.

.63 Condensed information on the financial position of government business enterprises could be presented by main classification of assets and liabilities, such as accounts receivable, investments, capital assets, accounts payable and long-term borrowings; condensed information on the results of operations could present total revenues and total expenses. Such information would provide an understandable summary that would allow users to assess the ability of government business enterprises to generate revenues to finance their own operations and to contribute financial resources to 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 entities in the government reporting entity and those due to parties external to the government reporting entity. [Former paragraph PS 3070.64, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.65 Government business enterprises may enter into significant transactions with other entities in the government reporting entity. Since the modified equity method of accounting does not eliminate intra-government reporting entity 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 entities in the government reporting entity. [Former paragraph PS 3070.65, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.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 contingent assets, contingent liabilities, contractual rights and contractual obligations of government business enterprises to understand and assess the future revenue requirements of the government reporting entity. [Former paragraph PS 3070.66, amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]

.67 One result of accounting for a government business enterprise by the modified equity method is that the outstanding debt issued by a government business enterprise is not included in the debt reported by the government reporting entity on its consolidated statement of financial position. Disclosure in government consolidated financial statements of the nature and terms of any government guarantees relating to debt issued by a government business enterprise would serve to highlight a government's contingent exposure to and responsibility for any debt of government business enterprises arising as a result of specific guarantees.

.68 When the nature of the business of a government business enterprise is not self-explanatory, governments are also encouraged to disclose by enterprise, or category of enterprise where appropriate, the nature of the business in which the enterprise(s) are engaged.

Acquisitions

.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 changes in net assets or net liabilities;*
- *(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 2026]

[Former paragraphs PS 3070.69(b) and (e), amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.70 *When there has been a permanent impairment in value of the unamortized portion of a purchase price discrepancy, the amount of the purchase price discrepancy that has been charged to the government's income from an investment in a government business enterprise should be disclosed. The facts and circumstances leading to the impairment should also be disclosed.* [APRIL 2000]

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.71 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3070.08A, PS 3070.58A-.59 and PS 3070.69. The amendments are 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.

Footnotes

1. Refer to Figure 3.1 in Chapter 3 of the Conceptual Framework, where financial statements are identified as an important type of financial report.

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

3. ACCOUNTING CHANGES, paragraph PS 2120.13, states: "When a change in an accounting policy is made to conform to new Public Sector Accounting Standards or to adopt Public Sector Accounting Standards for the first time, the new Standards may be applied retroactively or prospectively."

4. GOVERNMENT REPORTING ENTITY, paragraph PS 1300.24, states that one of the factors in assessing if a government business enterprise meets the financial sustainability criterion inherent in the definition of a government business enterprise is whether the organization has in place "realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future."

5. See ACCOUNTING CHANGES, paragraph PS 2120.04.

6. See ACCOUNTING CHANGES, paragraph PS 2120.05.
