



First-time Adoption of Public Sector Accounting Standards by Government Organizations

January 2010

**COMMENTS MUST BE RECEIVED BY
MARCH 25, 2010**

This Exposure Draft is issued by the Public Sector Accounting Board. The members of the Board are drawn from government, legislative auditors, public accounting, business and academe. All members serve as individuals and not as representatives of their governments, employers or organizations.

Individuals, governments and organizations are invited to send written comments to the Board on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

All comments received will be available on the website at www.psab-ccsp.ca ten days after the comment deadline, unless confidentiality is requested.

To be considered, comments must be received by March 25, 2010, addressed to:

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A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: ed.psector@cica.ca

Public Sector Accounting Standards, Guidelines and Recommended Practices need not be applied to immaterial items. Materiality is a matter of professional judgment in the particular circumstances. Materiality may be judged in relation to the reasonable prospect of its significance in the making of assessments and judgments by the users of financial statements. A material item would be expected to affect assessments of and judgments on government financial operations and management.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue a new CICA Public Sector Accounting (PSA) Handbook Section, FIRST-TIME ADOPTION BY GOVERNMENT ORGANIZATIONS. This Section would apply to government organizations adopting the PSA Handbook for the first time. The Section does not apply to governments adopting the PSA Handbook for the first time. They would refer to ACCOUNTING CHANGES, Section PS 2120.

Main features of the Exposure Draft

The Introduction to Public Sector Accounting Standards requires government organizations adopting the PSA Handbook for the first time to apply the standards retroactively, with restatement of prior periods.

The Exposure Draft proposes to allow government organizations a choice to adopt some aspects of one or more of the following standards either prospectively or retroactively:

- retirement and post-employment benefits;
- business combinations;
- investments in government business enterprises; and
- government business partnerships.

In addition, the Exposure Draft proposes exceptions prohibiting retroactive application for some aspects of standards relating to:

- hedge accounting; and
- tangible capital asset impairment.

The proposed Section would be effective for fiscal periods beginning on or after January 1, 2011.

Background

The Exposure Draft is directed at government organizations transitioning from another basis of generally accepted accounting principles (GAAP) to the PSA Handbook.

As indicated in footnote 4 of the Introduction to Public Sector Accounting Standards, the adoption of the PSA Handbook by government organizations should be accounted for by retroactive application with restatement of prior periods. Retroactive application with restatement of prior periods means a government organization adopting the PSA Handbook for the first time is required to prepare financial statements on the transition date as if that organization had always been following the PSA Handbook. Differences between the PSA Handbook and the prior basis of GAAP on the transition date will be adjusted to accumulated surplus/deficit.

In some cases, applying the PSA Handbook retroactively can be time consuming and costly. This Section proposes government organizations be provided a choice (an exemption) as to whether they apply some aspects of certain standards retroactively or prospectively.

In other cases, retroactive application is not appropriate. This Section prohibits retroactive application in applying some aspects of particular standards. Exceptions are proposed when it is not appropriate for a government organization to update certain decisions or accounting estimates made at the time of the transaction or event.

The purpose of this Section is to ensure that a government organization's transition to the PSA Handbook:

- is transparent for users of the financial statements and comparable over all periods presented;
- provides a suitable starting point for accounting under the standards in the PSA Handbook; and
- can be generated at a cost that does not exceed the benefits to users.

Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Exposure Draft.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify generically the source of the comment in the response. This will promote understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs, and, when expressing disagreement, they clearly explain the problem and indicate a suggestion, supported by specific reasoning for alternative wording.

Supporting reasons for your comments are most valuable when they demonstrate how the Exposure Draft proposals, or your alternatives:

- produce more relevant information for accountability and decision-making by external users;
- improve the representation of the substance of the underlying transaction or event;
- contribute to improved measures and understanding of financial position and annual results;
- facilitate enhanced comparability; and
- provide sufficient information for external users to understand the financial statements.

Please respond to the following questions:

1. Do you agree with the exemptions and exceptions proposed in the Exposure Draft? If not, which proposed exemptions and/or exceptions do you disagree with and why?
2. Are there any additional exemptions and exceptions that should be provided? Please be specific as to the exemption and/or exception being proposed and why?
3. Are there any additional matters that you feel may be relevant to this topic that need to be considered?

First-time Adoption by Government Organizations

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PURPOSE AND SCOPE

- .01 The purpose of this Section is to ensure that a government organization's first financial statements, prepared using 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 under Public Sector Accounting Standards; and
 - (c) can be generated at a cost that does not exceed the benefits to users.
- Governments adopting the Public Sector Accounting Standards for the first time would refer to ACCOUNTING CHANGES, Section PS 2120.
- .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.

DEFINITIONS

- .03 The following terms are used in this Section with the meanings specified:
- (a) The **date of transition to Public Sector Accounting Standards** is the beginning of the earliest period for which a government organization presents full comparative information under Public Sector Accounting Standards.
 - (b) The **first Public Sector Accounting Standards financial statements** are the first financial statements in which a government organization adopts Public Sector Accounting Standards.
 - (c) A **first-time adopter** is a government organization that presents Public Sector Accounting Standards financial statements for the first time.

- (d) An **opening statement of financial position** is a government organization's statement of financial position at the date of transition to Public Sector Accounting Standards.

RECOGNITION, MEASUREMENT AND PRESENTATION

Opening statement of financial position

- .04 A government organization prepares and presents an opening statement of financial position at the date of transition to Public Sector Accounting Standards. This opening statement of financial position is the starting point for the government organization's accounting under Public Sector Accounting Standards.

Accounting policies

- .05 ► *A government organization should use the same accounting policies in its opening statement of financial position and throughout all periods presented in its first financial statements prepared using Public Sector Accounting Standards. Those accounting policies should comply with the accounting policies effective at the end of the year the government organization adopts Public Sector Accounting Standards, except as otherwise specified in this Section.*
- .06 Except as noted in paragraphs .09 and .15 a government organization, in its opening statement of financial position prepared using Public Sector Accounting Standards:
 - (a) recognizes all assets and liabilities whose recognition is required by the standards;
 - (b) does not recognize items as assets or liabilities if the standards do not permit such recognition;
 - (c) reclassifies items that it recognized previously as one type of asset or liability, but are recognized as a different type of asset or liability under the standards; and
 - (d) applies the standards in measuring all recognized assets and liabilities.
- .07 ► *The accounting policies that a government organization uses in its opening statement of financial position prepared using Public Sector Accounting Standards may differ from those that it used for the same date using its previous accounting policies. For example, a government organization may have previously reported other comprehensive income, whereas there is no such concept in Public Sector Accounting Standards. Any resulting adjustments arise from events and transactions before the date of transition to Public Sector Accounting Standards. A government organization should recognize such adjustments directly in accumulated surplus / deficit at the date of transition to Public Sector Accounting Standards.*
- .08 This Section establishes two categories of exceptions to the principle that a government organization's opening statement of financial position should comply with Public Sector Accounting Standards:
 - (a) exemptions from some requirements of other standards (see paragraph .09);
 - (b) prohibited retroactive application of some aspects of other standards (see paragraph .15).

Exemptions from other standards

- .09 ► *A government organization may elect to use exemptions related to one or more of the following:*
- (a) retirement and post-employment benefits;*
 - (b) business combinations;*
 - (c) investments in government business enterprises;*
 - (d) government business partnerships.*
- A government organization should not apply these exemptions by analogy to other items.*

Retirement and post-employment benefits

- .10 Under RETIREMENT BENEFITS, Section PS 3250, for defined benefit plans, and under POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255, accrued benefit obligations and post-employment benefits are determined by a government organization by applying a discount rate with reference to its plan asset earnings or with reference to its cost of borrowing. Retroactive application of these Sections requires a government organization to recalculate accrued benefit obligations and post-employment benefits at the time of transition to Public Sector Accounting Standards. However, a first-time adopter may elect to delay application of these Sections relative to the discount rate used until the date of their next actuarial valuation or within three years of the transition date to Public Sector Accounting Standards, whichever is sooner.
- .11 Under RETIREMENT BENEFITS, Section PS 3250, for defined benefit plans, a government organization amortizes actuarial gains and losses to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group. Retroactive application of this approach requires a government organization to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to Public Sector Accounting Standards into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses as the date of transition to Public Sector Accounting Standards directly in accumulated surplus/deficit. Actuarial gains and losses after the date of transition to Public Sector Accounting Standards are to be accounted for in accordance with Section PS 3250.

Business combinations

- .12 ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, indicates the accounting requirements for an acquisition by a government organization when applying the purchase method. A first-time adopter need not comply with those requirements for an acquisition that was incurred prior to the date of transition to Public Sector Accounting Standards, with the exception of paragraph PS 2510.23. If a first-time adopter uses this exemption, the purchase method in Section PS 2510 is applied to acquisitions subsequent to the date of transition to Public Sector Accounting Standards. Balances resulting from business acquisitions recorded under the previous basis of GAAP on the date of transition to Public Sector Accounting Standards should be reviewed for appropriateness with other standards including FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

Investments in government business enterprises

- .13 INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070, requires investments in government business enterprises to be accounted for by the modified equity method. A first-time adopter need not comply with those requirements for an investment in a government business enterprise that was incurred prior to the date of transition to Public Sector Accounting Standards. If a first-time adopter uses this exemption, the modified equity method in Section PS 3070 is applied on a prospective basis from the date of transition. The investment in government business enterprise balance reflected in the opening statement of financial position is based on the asset and liability balances reflected in the government business enterprise financial statements on the date of transition as calculated under the basis of GAAP being followed by the government business enterprise.

Government business partnerships

- .14 GOVERNMENT PARTNERSHIPS, Section PS 3060, requires government business partnerships to be accounted for by the modified equity method. A first-time adopter need not comply with those requirements for a government business partnership entered into prior to the date of transition to Public Sector Accounting Standards. If a first-time adopter uses this exemption, the modified equity method in Section PS 3060 is applied on a prospective basis from the date of transition. The balance reflected in the opening statement of financial position is based on the asset and liability balances reflected in the government business partnership financial statements on the date of transition as calculated under the basis of GAAP being followed by the government business partnership.

Exceptions to retroactive application of other standards

- .15 ► *This Section prohibits retroactive application of some aspects of other standards relating to:*
(a) hedge accounting; and
(b) tangible capital asset impairment .

Hedge accounting

- .16 FOREIGN CURRENCY TRANSLATION, Section PS 2600, allows synthetic instrument accounting to be used by a government organization when hedging foreign currency risk. A government organization does not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under Section PS 2600. If, before the date of transition to Public Sector Accounting Standards, a government organization had designated a hedging relationship using criteria that are the same as that in Section PS 2600, the government organization would comply with the requirements of synthetic instrument accounting on transition. Transactions entered into before the date of transition to Public Sector Accounting Standards are not retroactively designated as hedges.

Tangible capital asset impairment

- .17 TANGIBLE CAPITAL ASSETS, Section PS 3150, indicates the conditions when a write-down of a tangible capital asset should be accounted for. A first-time

adopter applies the requirements of Section PS 3150 with respect to impairment of tangible capital assets prospectively from the date of transition to Public Sector Accounting Standards. In other words, write-downs on tangible capital assets taken prior to the date of transition are not reassessed based on the requirements of Section PS 3150.

Estimates

- .18 ► *A government organization's estimates in its opening statement of financial position prepared using Public Sector Accounting Standards should be consistent with estimates in its balance sheet for the same date prepared using its previous accounting policies (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.*
- .19 ► *A government organization may receive information after the date of transition to Public Sector Accounting Standards about estimates that it had made previously. A government organization should treat the receipt of that information in the same way as non-adjusting events after the statement of financial position date under SUBSEQUENT EVENTS, Section PS 2400.*
- .20 ► *A government organization may need to make estimates for purposes of its opening statement of financial position prepared using Public Sector Accounting Standards that were not required for the balance sheet for that date using its previous accounting policies. Those estimates should reflect conditions that existed at the date of the opening statement of financial position prepared using Public Sector Accounting Standards.*

DISCLOSURE

- .21 ► *In the year of adoption of Public Sector Accounting Standards, a government organization should disclose:*
- (a) the amount of each charge to accumulated surplus / deficit at the date of transition to Public Sector Accounting Standards resulting from the adoption of these standards and the reason therefor; and*
 - (b) a reconciliation of the net income reported in the government organization's most recent previously issued financial statements to its annual surplus / deficit under Public Sector Accounting Standards for the same period.*
- .22 ► *The disclosures required by paragraph .21 should give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of operations. If a government organization presented a cash flow statement under its previous accounting policies, it should explain the material adjustments to the statement of cash flow.*
- .23 ► *When an enterprise elects to use one or more of the exemptions in paragraphs.10-.14, it should disclose the exemptions used.*