



## Handbook Improvements August 2011

**COMMENTS MUST BE RECEIVED BY  
OCTOBER 28, 2011**

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](http://www.psab-ccsp.ca) shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

To be considered, comments must be received by **October 28, 2011**, addressed to:

**Tim Beauchamp, Director  
Public Sector Accounting  
277 Wellington Street West  
Toronto, Ontario M5V 3H2**

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](mailto: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.

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## Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to make amendments to improve accounting standards for public sector entities as set out in the CICA Public Sector Accounting Handbook. Responses are requested by October 28, 2011.

### Main features of the Exposure Draft

The following summarizes the amendments being proposed:

#### *Subsequent Events, Section PS 2400*

The proposed new paragraph in Section PS 2400 clarifies the meaning of the date of completion of the financial statement consistent with recent changes to Canadian assurance standards. The date of completion of the financial statements represents the cut-off date for identifying and considering the effects of subsequent events.

#### *Basic Principles of Consolidation, Section PS 2500*

The elimination of unrealized gains and losses associated with inter-governmental unit transactions is a basic consolidation principle. The issue of FINANCIAL INSTRUMENTS, Section PS 3450, introduces the fair value measurement category. The proposed amendments clarify that any unrealized gain or loss attributable to the derecognition of financial assets and financial liabilities in the fair value category due to inter-governmental sales or transfers would be eliminated from the consolidated statement of operations. It would be reported in the consolidated statement of remeasurement gains and losses, consistent with the principle that the gain or loss has yet to be realized from the perspective of the reporting entity.

Additionally, the proposed amendment to paragraph PS 2500.17 specifies that losses attributable to impairment are presented in the statement of operations.

#### *Additional Areas of Consolidation, Section PS 2510*

In the event that a governmental unit becomes a government business enterprise, provisions in Section PS 2510 address the reporting implications. The proposed amendments clarify provisions in two paragraphs as the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting may require the reporting other comprehensive income from the date reporting using the modified equity method applies.

#### *Segment Disclosures, Section PS 2700*

The proposed amendments ensure that disclosure requirements in Section PS 2700 align with recent presentation changes adopted in FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

#### *Loans Receivable, Section PS 3050*

The proposed amendments clarify that the grant portion of a loan with significant concessionary terms and the expenses associated with concessions in a loan restructuring are reported in the statement of operations. Additionally, the description of the preferred method applied when amortizing the loan discount is conformed to read “effective interest method”.

*Investments in Government Business Enterprises, Section PS 3070*

The proposed amendment deletes paragraph PS 3070.39 as the constructive retirement of a debt obligation that occurs when paragraphs PS 3070.35-.38 apply is consistent with BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.06, which requires the elimination of inter-governmental unit transactions and balances and FINANCIAL INSTRUMENTS, paragraph PS 3450.042, which establishes when liabilities are derecognized.

*Restricted Assets and Revenues, Section PS 3100*

The proposed amendment clarifies paragraph PS 3100.06 as the nature of the stipulations within sinking fund agreements can give rise to either internal or external restrictions.

*Long-Term Debt, Section PS 3230*

The proposed amendment to paragraph PS 3230.22 clarifies that the disclosure requirement applies to all debt securities, including when a debt security is derecognized as required by FINANCIAL INSTRUMENTS, Section PS 3450.

*Loan Guarantees, Section PS 3310*

The proposed amendment to paragraph PS 3310.08 clarifies that losses on loan guarantees are presented in the statement of operations.

*Contractual Obligations, Section PS 3390*

The proposed new paragraph clarifies the interaction of Section 3390 and FINANCIAL INSTRUMENTS, Section PS 3450.

**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 sources 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 amending the CICA Public Sector Accounting Handbook in the manner outlined in this Exposure Draft? If not, identify the amendment(s) you disagree with and the basis for disagreement, and suggest an alternate approach.
2. Are there any additional matters that need to be considered?

For your convenience, a PDF response form has been posted with this document that can be downloaded [here](#). You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comment fields in the response form and there is also a general comments section.

Alternatively, you may send written comments by e-mail in Word format to: [ed.psector@cica.ca](mailto:ed.psector@cica.ca)

# Handbook Improvements

## PROPOSAL

The following Handbook material would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

### SUBSEQUENT EVENTS, Section PS 2400

.09A Financial statements are complete when:

- (a) a complete set of financial statements, including all required note disclosures, has been prepared (see FINANCIAL STATEMENT PRESENTATION, Section PS 1201);
- (b) all final adjusting journal entries have been reflected in the financial statements;
- (c) no changes to the financial statements are planned or expected; and
- (d) financial statements meeting the above requirements have been approved in accordance with the entity's process to finalize its financial statements.

### BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

#### **Unrealized gains and losses on inter-governmental unit sales or transfers of assets**

- .15 **►** *Inter-governmental unit gains and losses arising on the sale or transfer of assets and liabilities remaining within the government reporting entity should be eliminated.*
- .16 ~~Consistent with paragraph PS 2500.05, elimination of unrealized inter-governmental unit gains and losses on the sale or transfer of assets is necessary so that assets are presented at historical cost to the government reporting entity.~~  
Unless items measured at cost or amortized cost are transferred at their carrying value, elimination of unrealized inter-governmental gains and losses on the sale or transfer of assets and liabilities is required to ensure the consolidated financial statements are presented in accordance with paragraph PS 2500.05.
- .16A An adjustment is required to eliminate any gain or loss reported in the consolidated statement of operations attributable to the derecognition of financial assets and financial liabilities in the fair value category arising on inter-governmental unit sales or transfers. When the transaction involves an inter-governmental unit sale or transfer of items in the fair value category, a gain or loss attributable to the transfer recognized in the consolidated financial statements is reported in the consolidated statement of remeasurement gains and losses.
- .17 The existence of unrealized inter-governmental unit losses may indicate a permanent decline in the value of the relevant assets. Such a decline in value would be recognized by writing down such assets.<sup>4</sup> When a loss is attributable to impairment, it is reported in the statement of operations.

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<sup>4</sup>—A government should account for such writedowns in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150.

## ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510

### WHEN A GOVERNMENTAL UNIT BECOMES A GOVERNMENT BUSINESS ENTERPRISE

- .42 When the nature of a governmental unit changes so that it meets the definition of a government business enterprise, the organization would be accounted for as a government business enterprise by the modified equity method in accordance with GOVERNMENT REPORTING ENTITY, Section PS 1300. Accordingly:
- (a) the organization would no longer be consolidated but would instead be accounted for by the modified equity method from the date its status changes to that of a government business enterprise; and
  - (b) the individual revenues and expenses of the organization would be included with those of the other governmental units and recognized in the consolidated statement of operations and the consolidated statement of remeasurement gains and losses up until the date the status of the organization changed. From that date forward, the profit or loss and other comprehensive income of the ~~only income~~ government business enterprise would be recorded in accordance; ~~calculated~~ with the modified equity method.
- .43 In most cases, the change in status of a governmental unit to a government business enterprise will not be an observable event. The change may occur over time and, therefore, most governments would assess the status of their government organizations only at year end when the financial statements are being prepared. In such circumstances, it is acceptable for a government to account for the organization as a government business enterprise for the whole period in which the change in status is identified. When the change is the result of an observable event, however, a government would apply both consolidation and modified equity accounting to the organization in the period, as appropriate, in accordance with paragraph PS 2510.42. Similarly, if the government creates a government business enterprise from the existing resources of a governmental unit during the period, the consolidated statement of operations and the consolidated statement of remeasurement gains and losses would only report income and other comprehensive income from the government business enterprise subsequent to the date of its creation.

## SEGMENT DISCLOSURES, Section PS 2700

- .19 Governments carry out their policies and deliver services through various organizations, including government business enterprises and government business partnerships, accounted for on a modified equity basis. Where the modified equity-accounted ~~net surplus / deficit income and other~~ comprehensive income can be directly attributed or reliably allocated to a segment, this attribution or allocation would be done. Similarly, segment revenue and segment expense would include the segment's share of revenue and expense of a government partnership that is accounted for by proportionate consolidation.
- .20 When a government accounts for certain government organizations on a modified equity basis in accordance with GOVERNMENT REPORTING ENTITY, paragraph PS 1300.47, if the modified equity-accounted ~~net surplus / deficit~~

income and other comprehensive income can be directly attributed or reliably allocated to a segment, this attribution or allocation would be done.

...

- .26 ➤ *Government financial statements should separately disclose the following information, in notes or schedules, about each of a government's segments identified in accordance with paragraph PS 2700.07:*
- (a) the basis for identifying segments, the nature of the segments and the activities they encompass, and the method of significant allocations to segments;*
  - (b) segment expense, other than remeasurement losses, by major object or category;*
  - (c) segment revenue, other than remeasurement gains, by source and type;*
  - (d) net remeasurement gains and losses by type, if applicable;*
  - (de) the aggregate of the net surplus / deficit income and other comprehensive income of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable; and*
  - (f) ~~the aggregate of the net surplus / deficit of government organizations accounted for under the modified equity basis in accordance with the transitional provisions of GOVERNMENT REPORTING ENTITY, paragraph PS 1300.47, for each segment, if applicable; and~~*
  - (f) a reconciliation between the information disclosed for segments and the consolidated information in the financial statements.*

## **LOANS RECEIVABLE, Section PS 3050**

### **LOANS TO BE REPAYED THROUGH FUTURE APPROPRIATIONS**

- .10 ➤ *The amount of a loan that is expected to be recovered from future appropriations should be accounted for in the statement of operations as an expense in the period when a direct relationship can be established between the repayment of the loan and a government's funding to the borrower.*

...

### **LOANS WITH SIGNIFICANT CONCESSIONARY TERMS**

- .20 ➤ *When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized in the statement of operations as an expense when the loan is made.*

...

- .25 *The preferred method of amortizing the loan discount is the effective interest rate method. This method is used to amortize bond discounts and premiums. Other methods, such as straight-line amortization, may also be appropriate. Regardless of the method, ~~the~~ amortization of the discount would be recorded as an increase in the loan balance and a credit to revenue.*

...

.27 In most cases, a government assumes the risks<sup>1</sup> and the repayment and interest rights associated with a loan when it disburses the funds to the borrower, or exchanges other assets, or assumes liabilities. At that point, the government has a financial asset because the borrower has a contractual obligation to repay the amount owing at a future date, it has a financial claim on the borrower.

...

## **RESTRUCTURING**

...

.50 Restructuring is, in substance, an exchange transaction in which the original loan is “settled” and replaced by a new loan agreement. Any related costs should be reflected as expenses in the statement of operations at the time of restructuring so that future accounting periods will not be charged with these costs. A restructured loan should not be recorded on the statement of financial position at an amount exceeding what is reasonably expected to be recovered.

.51 ► *The costs of concessions in a loan restructuring, if any, relating to principal or interest previously accrued, should be recognized in the statement of operations as expenses at the time of restructuring.*

## **INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070**

~~.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.~~

## **RESTRICTED ASSETS AND REVENUES, Section PS 3100**

.06 Often, external restrictions are associated with inflows of resources received from external parties who stipulate that amounts received be used in a particular manner. There may also be external restrictions imposed on the government’s own assets, as can be is the case with sinking fund investments.

## **LONG-TERM DEBT, Section PS 3230**

.22 ► *When a government holds its own securities at the end of the accounting period, including securities derecognized in accordance with FINANCIAL INSTRUMENTS, paragraphs PS 3450.42-.51, the following should be disclosed:*

- (a) the gross amount of the long-term debt classes to which the securities relate; and*
- (b) the amount of the government’s own securities purchased but not cancelled.*

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<sup>1</sup> The primary risk associated with a loan receivable is credit risk (i.e., the risk that principal and interest payments will not be received in accordance with the terms and conditions of the loan agreement), but there may also be interest rate risk or foreign currency exposure risk, depending on how the loan is structured.

## **LOAN GUARANTEES, Section PS 3310**

### **PROVIDING FOR LOSSES**

...

- .08 ➤ *A provision for losses on loan guarantees should be established when it is determined that a loss is likely, and should be accounted for as a liability and in the statement of operations as an expense.*

## **CONTRACTUAL OBLIGATIONS, Section PS 3390**

.05A Although derivatives are contractual obligations, the transaction or event giving rise to a government's control of the benefit or obligation commences upon execution of the contract. In this regard, derivatives are unlike contractual obligations, such as a purchase agreement, where a liability does not arise until the good or service that is the object of the contract is provided. Derivatives are accounted for in accordance with FINANCIAL INSTRUMENTS, Section PS 3450.