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## PSAB MISSION

The Public Sector Accounting Board ("PSAB") serves the public interest by:

- Establishing standards and other guidance for financial reporting by Canadian entities in the public sector
- Contributing to the development of internationally accepted public sector financial reporting standards

The mission of PSAB is to support informed economic decision-making and accountability by maintaining a framework that provides a basis for high-quality information about organizational performance reported by public sector entities.

## UPCOMING PSAB MEETINGS

- June 12-13, 2013
- September 23-24, 2013
- December 12-13, 2013
- March 20-21, 2014

You can access meeting agendas via [PSAB's calendar](#). [Decision Summaries](#) are available after each meeting.

## Activities of the Canadian Public Sector Accounting Board and Staff

### MESSAGE FROM THE CHAIR



I have been honoured to be Chair of the Public Sector Accounting Board (PSAB) over the last year. It is a privilege to be involved in standard setting, which is an important component of Canadians having confidence in their public institutions.

I would like to thank particularly the Board members who volunteer their time, the very professional staff, and stakeholders who take the time to express their views. All of these elements are critical to success.

My focus as Chair has been, and will continue to be, stakeholder consultation and liaison. The standard-setting world has grown immensely in the last few years, both in terms of complexity and reach. PSAB will be successful only if we navigate our challenges together with our stakeholders. I am delighted that PSAB has introduced a new consultation forum, the Public Sector Accounting Discussion Group, chaired by PSAB member Andrew Newman. It is intended to provide a venue to discuss difficult issues.

For 2012-2013, PSAB's report card can be summarized as follows:

- made good progress on standard-setting activities and achieved significant milestones in a number of projects;
- developed a Statement of Principles on [Improvements to Not-For-Profit Standards](#);
- prepared a [Draft 2013-2016 Strategic Plan](#), available for public comment;
- established the Public Sector Accounting Discussion Group and are inviting stakeholders to [submit issues](#) for its consideration; and
- responded to issues raised by stakeholders during the year amending various standards to provide additional guidance and clarifications.

In 2013-2014, PSAB's standard-setting priority remains the development of the conceptual framework and alignment of standards for government not-for-profit organizations with those used by other public sector entities. We also recognize that the government transfers standard is raising issues with some of our stakeholders, who are requesting more guidance.

At the March 2013 meeting, PSAB received a presentation from David Bean, Director of Research and Technical Activities of the U.S. Governmental Accounting Standards Board, on the development of its conceptual framework. PSAB members appreciated the opportunity to understand the views of another standard-setting body.

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Governments and the public in Canada often rely on the annual surplus or deficit numbers reported by public sector entities to evaluate their financial performance and compare with their peers. The confidence they place on the numbers is due to the fact that they are prepared in accordance with a common set of independently developed accrual basis accounting standards and are audited.

A recent report published by the European Commission reminds us that some countries do not have a similar system in place. The report identifies the benefits of having a harmonized set of public sector accounting standards for its member states that is based on accrual principles. It cites the benefits as improved accountability, transparency, comparability, trust on the reported deficit and debt numbers and quality information for decision making.

The report also identifies the costs and tasks ahead to put in place a set of accrual basis financial standards and a financial reporting system that supports the preparation of such financial statements. Canadian public sector entities have come a long way in this journey. Though difficult issues come up from time to time, and outstanding issues remain to be addressed, the public interest has generally been well served. This is the result of the efforts of those involved in the preparation and audit of their financial statements over the past three decades and the continuing support and commitment of their governments.

Canadian public sector accounting standards are highly regarded internationally. One of the contributing factors to the high-quality standards is the volunteer members of PSAB and its task forces, who bring the practical aspects of issues to standards development. On behalf of the Board and staff, I would like to thank the contributions of Bryon Rafuse and Jim Ralston, two PSAB members who recently completed their terms. I would also like to welcome the following three new PSAB members appointed by the Accounting Standards Oversight Council:

- Murray Lindo, Provincial Controller and Assistant Deputy Minister, Ministry of Finance, Province of Ontario;
- Margaret MacDonald, Deputy Minister, Treasury Board Office, Province of Nova Scotia; and
- Bill Matthews, Assistant Secretary, Expenditure Management Sector, Treasury Board of Canada Secretariat.

Last but not the least, I want to thank Ron Salole for his contributions and support to public sector accounting standard setting and wish him a healthy and happy retirement. As the Vice President of Standards and the former Director of Public Sector Accounting, Ron has been a non-voting member of PSAB since 1997.

Rod Monette  
Chair, Public Sector Accounting Board

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## HANDBOOK SECTION – STANDARDS ON ACCOUNTING CHANGES

Section PS 2120, *Accounting Changes*, provides guidance on how to account for and disclose a change in an accounting policy and an accounting estimate, and a correction of a prior period error.

### *Change in an Accounting Policy*

#### When would an accounting policy be changed?

Accounting policies are the specific accounting principles and methods selected by an entity in preparing financial statements. A change in an accounting policy may be made:

- to conform to new public sector accounting (PSA) standards;
- to adopt PSA standards for the first time; or
- when it would result in more appropriate presentation of events or transactions in the financial statements.

However, initial adoption of, or change in, an accounting policy under the following scenarios is not considered a change in an accounting policy for the purpose of applying guidance in Section PS 2120:

- when a change is necessitated by events or transactions that are clearly different in substance from those that occurred previously; or
- when an accounting policy is initially adopted in recognition of events or transactions occurring for the first time or that were previously immaterial.

Also, a change in classification of an item in the financial statement from prior periods due to a change in allocation or grouping of items is not considered a change in an accounting policy.

#### How should a change in an accounting policy be accounted for?

If a change in an accounting policy is made to conform to new PSA standards or to adopt them for the first time, the new standards may be applied retroactively or prospectively.

If an entity changes an accounting policy from one to another among the choices permitted in a standard, the new accounting policy should be applied retroactively unless the necessary financial data are not reasonably determinable.

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When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to reflect the new accounting policy unless the effect of the change is not reasonably determinable for individual prior periods. In such circumstances, the cumulative effect of the change on prior periods should be made as an adjustment to the opening balance of the accumulated surplus/deficit of the current period or an earlier period, as appropriate.

When a change in an accounting policy is applied prospectively, the new accounting policy is applied only to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to those balances.

Regardless of whether an entity accounts for a change in an accounting policy retroactively in its financial statements, it is desirable that the new accounting policy be reflected in any supplementary historical summaries that report financial results of prior periods. This would provide meaningful information for readers for trend analysis and comparison purposes.

### What information about a change in an accounting policy should be disclosed?

The following information should be disclosed for each change in an accounting policy in the current period:

- a description of the change;
- the effect of the change on the financial statements of the current period and prior periods;
- the reason for the change;
- whether the change has been applied retroactively;
- whether prior periods have been restated; and
- the cumulative adjustment to the opening balance of the accumulated surplus/deficit of the current period, if any.

A change in an accounting policy that does not have a material effect in the current period but is likely to have a material effect in future periods should also be disclosed.

### *Change in an Accounting Estimate*

#### When would an accounting estimate be changed?

Making estimates is normal and necessary in preparing periodic financial statements. Changes in accounting estimates are needed as new events occur, more experience is acquired or additional information becomes available.

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It can sometimes be difficult to distinguish between a change in an accounting policy and a change in an accounting estimate. When it is difficult to draw a clear distinction, the change is usually treated as a change in an estimate rather than a change in a policy. For example, an entity that has an accounting policy to capitalize certain costs may change its policy to expense them because new information indicates that these costs may not result in future economic benefits to the entity. In this case, the change results from the continuing process of obtaining additional information and revising estimates.

### How should a change in an accounting estimate be accounted for?

As a change in an accounting estimate arises from new information or developments in the current period, prior period financial results should not be revised. A change in an accounting estimate may affect the financial results of the current period and future periods. The effect of the change should be accounted for in the period of change if only financial results of the current period is affected, or accounted for in both the period of change and applicable future periods if its effects go beyond the current period.

### What information about a change in an accounting estimate should be disclosed?

Disclosure is usually not necessary for changes in estimates in accounting for normal operating activities such as allowance for doubtful accounts. However, disclosure of the nature and effect of a change in an accounting estimate may be desirable if the change is rare or unusual and may affect the financial results of both current and future periods.

### *Correction of a Prior Period Error*

#### When would an error occur in prior period financial statements?

An unintentional error may occur on rare occasions, such as when there is:

- a mistake in computation;
- a misinterpretation or misrepresentation of information;
- an oversight of information available at the time the financial statements were prepared; or
- a misappropriation of assets.

However, an estimate made as part of the normal process of accounting that is proved inaccurate by subsequent events is not considered an error. Also, an issue raised by the auditor in one period, but not corrected by the entity until a subsequent period, is not considered an error for purposes of applying guidance in Section PS 2120.

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## How should a correction of an error in prior period financial statements be accounted for?

Correction of an error is required if it is so material that the financial statements of prior periods can no longer be considered to have been fairly presented at the date of their issue. The correction should be made retroactively, with restatement of comparative information unless it is impracticable to do so. Such a correction should also be made in any supplementary historical summaries that report the financial results of prior periods affected by the correction.

## What information about a correction of an error should be disclosed?

When there is a correction of an error in prior period financial statements, the following information should be disclosed in the current period:

- a description of the error;
- the effect of the correction on the financial statements of the current and prior periods; and
- the fact that the prior periods financial statements have been restated.

Depending on the nature of an error, it may be appropriate to disclose the effect of its correction on significant indicators such as the change in net debt.

## HIGHLIGHTS OF NEW STANDARDS

The Public Sector Accounting Board (PSAB) approved an amendment to Section PS 2125, *First-time Adoption by Government Organizations*, to clarify that this Section does not apply to new standards released after August 2010. The new transitional provisions paragraph is as proposed in the Exposure Draft, "First-time Adoption by Government Organizations: Transitional Provisions."



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## PROJECT STATUS

Learn about PSAB's latest discussions regarding its projects from its most recent [decision summary](#) or from its [active project](#) pages.

### [Appropriations](#)

PSAB decided to terminate this project.

Consistent with responses to PSAB's Statement of Principles, there was no consensus among respondents to its Exposure Draft on the key issue of presentation. Throughout, respondents have requested PSAB to focus its limited resources on other priority projects as few public sector entities that were affected by the proposals prepare audited general purpose financial statements. After deliberation of the responses, PSAB agreed, noting that guidance in Section PS 1201, *Financial Statement Presentation*, and Section PS 3410, *Government Transfers*, may be relevant for entities reporting on the use of appropriations.

Staff contact:

[tcorrigan@cpacanada.ca](mailto:tcorrigan@cpacanada.ca) 416-204-3474

### [Assets](#)

PSAB reviewed a draft statement of principles on assets, contingent assets and contractual rights. PSAB provided feedback on a few key issues and requested the task force to revise the document for further discussion at PSAB's June 2013 meeting.

Staff contact:

[jchrzanowski@cpacanada.ca](mailto:jchrzanowski@cpacanada.ca) 416-204-3466

### [Related Party Transactions](#)

PSAB reviewed responses to its Exposure Draft. It agreed to address concerns raised by respondents, including revised guidance on key management personnel and measurement of related party transactions. These changes are significant enough to warrant re-exposure.

PSAB considered a draft re-exposure draft and approved the revised principles with suggestions for changes to the document. PSAB is expected to approve the re-exposure draft with the requested changes before June 2013.

Staff contact:

[tcorrigan@cpacanada.ca](mailto:tcorrigan@cpacanada.ca) 416-204-3474

### [Revenues](#)

PSAB reviewed a draft statement of principles. Given the unique nature of and the different circumstances that give rise to public sector revenues, PSAB requested that additional information be presented at its June 2013 meeting prior to further consideration of the proposed principles.

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[bcorrell@cpacanada.ca](mailto:bcorrell@cpacanada.ca) 416-204-3460

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## DOCUMENTS FOR COMMENT

We want to hear from you! The following documents are online. Issues analysis documents that outline PSAB's responses to the major issues raised by respondents to the statement of principles are also posted.

Title of Documents	Deadline for Comments
<a href="#">Amendments to the Introduction</a> (Exposure Draft)	May 3, 2013
<a href="#">Restructurings</a> (Statement of Principles)	May 17, 2013
<a href="#">Draft Strategic Plan 2013-2016</a> (Invitation to Comment)	May 17, 2013
<a href="#">Improvements to Not-for-Profit Standards</a> (Statement of Principles)	September 15, 2013

Stay tuned for a re-exposure draft on related party transactions to be posted for public comment in the near future. Regularly check for [open documents for comment](#), and [subscribe to board publications](#) and [RSS feeds](#) to keep up to date on PSAB activities.

The International Public Sector Accounting Standards Board (IPSASB) has issued three documents for comment. PSAB encourages Canadian stakeholders to respond directly to IPSASB on these documents.

Title of Documents	Deadline for Comments
<a href="#">Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements</a> (Exposure Draft)	April 30, 2013
<a href="#">Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</a> (Exposure Draft)	April 30, 2013
<a href="#">Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports</a> (Exposure Draft)	August 15, 2013



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## EFFECTIVE DATES FOR PROPOSED STANDARDS

The anticipated effective date for the proposed Related Party Transactions standard is fiscal years beginning on or after April 1, 2016. This effective date is subject to change pending PSAB's final approval of the standard; however, it provides you with advance notice to facilitate implementation planning.

## WHAT'S NEW

### *Website Resources*

PSAB's [Due Process Procedures](#) document, revised [Terms of Reference](#) and [Statement of Operating Procedures](#) are now available online

### *Opportunities to Involve*

An [invitation to submit an issue](#) to the Public Sector Accounting Discussion Group for its consideration is posted online. The deadline for submissions is May 17, 2013.

### *Rate-regulated Activities*

The Accounting Standards Board (AcSB) decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015. Read the [Update - Rate-regulated Activities](#) for more information.

The International Accounting Standards Board (IASB) has issued a [Request for Information](#) to assist it in determining the scope of its comprehensive project on rate-regulated activities. Canadian stakeholders are encouraged to submit their comments to the IASB by May 30, 2013.

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## PSAB Staff New Email Address

Due to the unification of the accounting profession in Canada and the resulting launch of Chartered Professional Accountants of Canada as the national accounting body for the profession, the email addresses of PSAB staff have changed. The office address and phone numbers are unchanged.

<b>Director</b>	Tim Beauchamp	<a href="mailto:tbeauchamp@cpacanada.ca">tbeauchamp@cpacanada.ca</a>
<b>Principal</b>	Joanna Chrzanowski	<a href="mailto:jchrzanowski@cpacanada.ca">jchrzanowski@cpacanada.ca</a>
	Martha Jones Denning	<a href="mailto:mjonesdenning@cpacanada.ca">mjonesdenning@cpacanada.ca</a>
	Jim Keates	<a href="mailto:jkeates@cpacanada.ca">jkeates@cpacanada.ca</a>
	Antonella Risi (on maternity leave)	<a href="mailto:arisi@cpacanada.ca">arisi@cpacanada.ca</a>
	Lydia So	<a href="mailto:lso@cpacanada.ca">lso@cpacanada.ca</a>
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