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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 all Canadian entities in the public sector
- Contributing to the development of internationally accepted public sector financial reporting standards

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

UPCOMING PSAB MEETINGS

- June 16-17, 2014
- September 15-16, 2014
- December 15-16, 2014
- March 19-20, 2015

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



It has been an honour and privilege to serve as the Chair of the Public Sector Accounting Board (PSAB) over the last two years and to report on the last fiscal year 2013-2014. Looking back, the time has gone quickly and we have had both significant progress and challenges. Our goal is always to serve the public interest, which requires respectful and productive relations with our stakeholders and wise standard setting.

The environment in which PSAB operates has become more complex, as there are more adherents of PSAB standards and more technically challenging issues. This has required additional focus on implementation of and transition to new standards, while also being mindful of developments in our Conceptual Framework project.

As always I am most grateful for the dedication of our volunteer Board members and the highly professional support from staff. I would especially like to thank Board member Andrew Newman, who has ably chaired the Public Sector Accounting (PSA) Discussion Group, and who has just been appointed as PSAB's Vice-Chair.

PSAB concluded fiscal year 2013-2014 with both important progress and challenges in standard setting and stakeholder relationship-building.

Progress in standard setting

PSAB achieved significant milestones in a number of projects in 2013-2014, including:

- the issuance of three statements of principles relating to projects on revenue, assets and not-for-profit organizations; and
- the approval of two re-exposure drafts relating to the PSA Handbook Terminology and Related Party Transactions projects.

Other projects have also advanced towards their next milestones:

- The Conceptual Framework Task Force is developing various components of a statement of principles. It is also working on a third consultation paper on financial statement presentation.

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- The Assets Retirement Obligations Task Force developed a statement of principles on which PSAB is deliberating.
- The Restructurings Advisory Group considered an exposure draft with an expanded scope from the previous statement of principles.

Challenges

Implementation of two technically complex standards – government transfers and financial instruments – gave rise to issues that required PSAB's attention.

PSAB responded to concerns with implementation of the Financial Instruments standard by amending the transitional provisions twice in 2013-2014. The Board will continue to monitor and address stakeholder transitional issues.

PSAB responded to stakeholders' request for clarification of the Government Transfers standard by gathering preliminary evidence through a subcommittee made up of PSAB members. The Board will consider whether to undertake a post-implementation review at its June 2014 meeting.

Stakeholder relationship-building

The PSA Discussion Group held its first two public meetings in September 2013 and January 2014. The Group provides a regular public forum for stakeholders to bring forward issues arising from application of the CPA Canada Public Sector Accounting Handbook. It has attracted significant interest from stakeholders, who have submitted issues to, made presentations at and observed meetings. Stakeholders have also reviewed [meeting reports](http://www.frascanada.ca/meeting-reports) that are posted online at www.frascanada.ca.

2014-2015 priorities

In 2014-2015, PSAB will continue to invest heavily in respectful and productive stakeholder relations. This will be accomplished through the PSA Discussion Group, dealing with stakeholders on implementation and transition issues, and ensuring that standards meet the public good. We will also continue important work on the conceptual framework, which is the important foundation from which standards emanate. Lastly, PSAB will consider, in conjunction with the Accounting Standards Board, the appropriate accounting approaches for the very important not-for-profit sector.

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PSAB membership

On behalf of the Board and staff, I would like to thank the contributions of Robert Siddall, who recently completed his three-year term as a PSAB member. I would like to welcome new PSAB member Bill Cox, Partner at BDO Canada, who was appointed for a three-year term by the Accounting Standards Oversight Council (AcSOC). The terms of PSAB members Mike Ferguson, Russ Jones and Andrew Newman were extended by three years and France Alain's membership was extended by two years by AcSOC.

I look forward to working with new and existing members to serve the public interest in the coming year.

Rod Monette
Chair, Public Sector Accounting Board

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HANDBOOK SECTION – STANDARDS ON BASIC PRINCIPLES OF CONSOLIDATION

Section PS 2500, *Basic Principles of Consolidation*, establishes standards on the basic principles of consolidation in preparing financial statements of the government reporting entity except for government business enterprises (GBEs).

Financial statements of the government reporting entity are called government financial statements. A government reporting entity includes organizations that are controlled by the government (i.e., government organizations). Government organizations other than GBEs are called governmental units.

Governmental units are consolidated in the government financial statements and GBEs are included in government financial statements on a modified equity basis.

Government financial statements should consolidate governmental units line-by-line on a uniform basis of accounting after eliminating inter-governmental transactions and balances.

Eliminating inter-governmental transactions and balances

The purpose of government financial statements is to present the effects of transactions of the government reporting entity with organizations and individuals external to that entity, taking into consideration the accounting for GBEs.

To ensure that the consolidated financial position and results of operations of the government reporting entity are not overstated or understated because of inter-governmental unit transactions, the effects of these transactions are eliminated upon consolidation. This involves the elimination of inter-governmental unit:

- assets and liabilities, including any investments in governmental units recorded by other governmental units in the form of shares or contributed surplus;
- revenues and expenses, including transfers and internal charges such as cost allocations or service charges for the use of assets or provision of services;
- dividends, if any, that have been declared; and

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- unrealized gains and losses, including those related to inter-governmental unit sales or transfers of tangible capital assets.

Inter-governmental unit revenues and expenses

Section PS 1201, *Financial Statement Presentation*, requires that expenses be reported by function on the consolidated statement of operations and disclosed by object in the note or schedule to the government financial statements.

Two sets of elimination entries relating to inter-governmental unit revenues and expenses may be required to ensure that the total expenses reported by function equals the total expenses disclosed by object.

Reporting expenses by function helps users assess the allocation of resources to government functions or programs. To show the purposes for which goods and services have been acquired or consumed, expenses are reported according to the function of the governmental unit that ultimately bears the cost and accountability.

The need for elimination entries will vary depending on how inter-governmental unit transactions are recorded. If the originating governmental unit records revenue from internal charges, a consolidation entry would be required to eliminate such revenue against the related expense recorded in its accounts. If the originating governmental unit records a recovery of an expense from internal charges by offsetting the related expense in its accounts, no elimination entry would be required.

Disclosing expenses by object helps users evaluate the economic impact of government acquiring and consuming various types of resources. To show the sources of goods and services acquired and consumed, expenses are disclosed according to the object that reflects the resources (for example, employee salaries and tangible capital assets) acquired by the originating governmental unit. The elimination entries required will depend on how the internal charges are recorded by the originating governmental unit.

Unrealized inter-governmental unit gains and losses

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.

No elimination would be required if assets and liabilities measured at cost or amortized cost are transferred at their carrying value.

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If an unrealized inter-governmental unit loss represents impairment or a permanent decline in the value of the asset sold or transferred, no elimination or reclassification entries would be required. Such loss should be reported in the consolidated statement of operations.

When a governmental unit sells or transfers financial assets and/or financial liabilities in the fair value category, it derecognizes any related remeasurement gains and losses in the statement of remeasurement gains and losses, and recognizes them in the statement of operations. Elimination of unrealized inter-governmental gains and losses would require reclassification of such gains and losses from the statement of operations back to the statement of remeasurement gains and losses. This would ensure that the government financial statements report the unrealized remeasurement gains and losses in the proper statement.

Elimination entries relating to unrealized gains and losses arising from an inter-governmental unit sale and transfer of tangible capital assets should result in:

- a net book value of the asset reported on the consolidated statement of financial position that reflects the asset's historical cost to the government reporting entity and an accumulated amortization that is based on the same historical cost;
- amortization of the tangible capital asset recognized in the consolidated statement of operations that is based on the asset's historical cost to the government reporting entity; and
- information about the tangible capital asset disclosed in the notes to the government financial statement that excludes any unrealized gains and losses arising from the inter-governmental unit sale or transfer.

Uniform basis of accounting

The accounting policies of governmental units are conformed to those of the government. The accounting policies of GBEs are not conformed to those of the government under the modified equity method.

Line-by-line consolidation

After adjusting for differences in accounting policies and eliminating inter-governmental transactions and balances, the next steps of consolidation involve adding the adjusted:

- balances of assets, liabilities and accumulated surplus/deficit of the governmental units together and including them on the consolidated statement of financial position;

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- revenues and expenses of the governmental units together and including them on the consolidated statement of operations; and
- balances and amounts of items on the statement of remeasurement gains and losses of the governmental units together and reporting them on the consolidated statement of remeasurement gains and losses.

Inclusion of governmental units

Governmental units are included in government financial statements from the date of their creation or the date they became eligible for inclusion. They are removed from government financial statements from the date of their sale or other form of disposition or dissolution.

If a governmental unit becomes eligible for inclusion as a result of a reinterpretation of existing circumstances, it would be included in the government financial statements as if it had always been part of the government reporting entity. This would involve a restatement of comparative numbers.

Different fiscal periods

Governmental units may not have the same fiscal periods as the government reporting entity. For consolidation purposes, a governmental unit normally can prepare financial statements for a period that coincides, or substantially coincides, with the fiscal period of the government reporting entity.

When this is not possible, this fact, and the period covered by the governmental unit financial statements used for consolidation purposes, should be disclosed. Events relating to or transactions of the governmental unit that have occurred during the intervening period and have significant effect on the financial position or results of operations of the government reporting entity should be recorded in the government's financial statements.

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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.

[Assets Retirement Obligations](#)

PSAB provided feedback to its task force on the scope and recognition proposals. PSAB will continue its deliberation on other proposals in a draft statement of principles at the June 2014 meeting.

Staff contact:

jkeates@cpacanada.ca 416-204-3282

[Concepts Underlying Financial Performance](#)

PSAB provided feedback to its task force on financial statement presentation issues. The task force plans to consult stakeholders on this topic as it impacts other components of the conceptual framework. The third consultation paper is expected to be issued in the second half of 2014.

Staff contact:

mdenning@cpacanada.ca 416-204-3288

[Related Party Transactions](#)

PSAB agreed to amend the June 2013 Re-exposure Draft, "Related Party Transactions," to better reflect the different scope of the disclosure component and the recognition and measurement guidance.

PSAB approved a re-exposure draft that will propose two new Sections, *Related Party Disclosures*, and *Inter-entity Transactions*.

Staff contact:

tcorrigan@cpacanada.ca 416-204-3474

[Revenue](#)

PSAB discussed issues identified by staff based on a preliminary review of responses to its Statement of Principles. PSAB noted that further research on these issues will be required. The project timeline will be extended as a result.

Staff contact:

bcorrell@cpacanada.ca 416-204-3460

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DOCUMENTS FOR COMMENT

We want to hear from you! The following documents are online.

Title of Documents	Deadline for Comments
Amendments to the Introduction (Re-exposure Draft)	April 30, 2014

Regularly check for [open documents for comment](#), and [subscribe to board publications including the newsletter, *The Standard*](#) and [RSS feeds](#) to keep up to date on PSAB activities.

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

Title of Documents	Deadline for Comments
Reporting Service Performance Information (Exposure Draft)	May 31, 2014

UPCOMING EVENTS

The Public Sector Accounting (PSA) Discussion Group will hold its next meeting on May 6, 2014 in Toronto. The meeting will be open to public observation. Stakeholders interested in attending should note that space is limited. An [observer registration form](#) and [guidelines](#) can be accessed online. An agenda of the meeting will be posted online in advance of the meeting. Stay tuned to the [upcoming PSA Discussion Group meeting](#) notice and subscribe to [RSS feeds](#) to keep up to date on PSAB activities. .

WHAT'S NEW

PSAB Appointments and Retirements

An [announcement](#) of appointments, reappointments and retirements of members is posted online.

PSA Discussion Group Report

A [Report on the Public Meeting on January 7, 2014](#) is posted online. It provides details about the discussions.