

# Summary Comparison: PSAB’s Proposals for a Revised Conceptual Framework and IPSASB’s Existing Conceptual Framework

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## Introduction

This document was prepared to provide stakeholders an overview of the differences between the Public Sector Accounting Board’s (PSAB) proposals for a revised conceptual framework and the International Public Sector Accounting Board’s (IPSASB) existing conceptual framework.

Read this alongside PSAB’s Consultation Paper, “[Reviewing PSAB’s Approach to International Public Sector Accounting Standards](#).” This summary comparison may help inform your evaluation of and the merits of the various options for a future international strategy for PSAB.

Please note: This comparison prepared by staff was not approved by PSAB. It is not meant to be a complete overview nor an identification of all the differences.

## Highlights

The conceptual framework comparison was structured based on the key concepts proposed in PSAB’s Statement of Concepts, “[A Revised Conceptual Framework for the Canadian Public Sector](#).”

The following table identifies where there are differences between PSAB’s proposals for a revised conceptual framework and IPSASB’s existing conceptual framework. The main difference is with the measurement attribute: IPSASB does not specify a default measurement attribute that should be used; PSAB does.

The comparison has been based on the following classifications:

### Similar / Consistent

Staff is of the view that the concepts are similar.

### Minor Differences Noted

Staff is of the view that the differences would not have significant implications for financial reporting.

### Difference Noted

Staff is of the view that the concepts are different and may have a significant impact.

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Subject	Comparison
Characteristics of public sector entities	<b>Similar / Consistent</b>
Objective of financial reporting	<b>Similar / Consistent</b>
Primary users of financial reporting	<b>Minor Differences Noted</b>
Information needs of users	<b>Similar / Consistent</b>
Role of financial statements	<b>Similar / Consistent</b>
Financial statement foundations <sup>1</sup>	<b>Similar / Consistent</b>
Financial statement objectives	<b>Minor Differences Noted</b>
Qualitative characteristics	<b>Similar / Consistent</b>
Considerations	<b>Minor Differences Noted</b>
Elements of financial statements	<b>Minor Differences Noted</b>
Recognition criteria	<b>Minor Differences Noted</b>
Derecognition	<b>Similar / Consistent</b>
Measurement attribute	<b>Difference Noted</b>
Presentation definition	<b>Similar / Consistent</b>
Presentation objective	<b>Similar / Consistent</b>

## Comparison

### Primary Users

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
The public and its elected or appointed representatives are the primary users of public sector financial reports.	The primary users of general purpose financial reports are service recipients and resource providers (e.g., citizens, residents, lenders) and their representatives (i.e., the legislature or

<sup>1</sup> Although IPSASB does not have a separate section in its conceptual framework articulating the financial statement foundations, the financial statement foundations identified by PSAB appear to be interwoven throughout IPSASB's Handbook of International Public Sector Accounting Pronouncements.

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
	similar body and members of parliament or a similar representative body).

IPSASB's primary users extend beyond the general public and its elected or appointed representatives. The practical implications of this difference may not be significant, but there is potential for the inclusion of different information in financial statements prepared under International Public Sector Accounting Standards (IPSAS).

### Financial Statement Objectives

PSAB identified six financial statement objectives.

1. The scope of financial statements
2. Reporting financial position
3. Reporting changes in financial position
4. Comparing actual performance to that projected in the budget
5. Reporting non-compliance with legislative authorities
6. Reporting risks and uncertainties associated with the entity

IPSASB does not include a section on financial statement objectives in its conceptual framework.

This approach is unique to PSAB and has its roots in how the Public Sector Accounting and Auditing Board (PSAAB) <sup>2</sup> originally built consensus on what financial statements should report. PSAB feels that there is merit in articulating the financial statement objectives. They provide the basis for determining the principles for the reporting model and the focus, or "indicators" to be reported on each statement.

See "[Summary Comparison of PSAB's Proposals for a Revised Reporting Model and IPSASB's Reporting Model](#)" for a high-level discussion of how PSAB's reporting model differs from IPSASB's.

### Considerations / Constraints

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
The considerations to take into account in striving to achieve a balance among the qualitative characteristics include:	Pervasive constraints on information included in general purpose financial reports are:

<sup>2</sup> PSAAB is the board established in 1981 by the Institute of Chartered Accountants of Canada after consulting with senior government stakeholders who saw the need for a comparable and consistent approach to financial reporting by governments in Canada. In 1998, PSAAC was renamed to PSAB.

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<ul style="list-style-type: none"> <li>• materiality;</li> <li>• benefit versus cost; and</li> <li>• prudence.</li> </ul>	<ul style="list-style-type: none"> <li>• materiality;</li> <li>• cost-benefit; and</li> <li>• achieving an appropriate balance between the characteristics.</li> </ul>

PSAB introduced prudence as a consideration as prudence is inherent in the application of professional judgement – required when considering the accounting of transactions and other events.

IPSASB includes achieving a balance between the qualitative characteristics as a constraint. On the other hand, PSAB lists the considerations that need to be taken into account to achieve a balance among the qualitative characteristics.

These differences are not considered significant differences in intent or substance.

## Elements of Financial Statements

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<p>The elements of financial statements are:</p> <ul style="list-style-type: none"> <li>• assets;</li> <li>• liabilities;</li> <li>• revenues; and</li> <li>• expenses.</li> </ul>	<p>The elements of financial statements are:</p> <ul style="list-style-type: none"> <li>• assets;</li> <li>• liabilities;</li> <li>• revenue;</li> <li>• expense;</li> <li>• ownership contributions; and</li> <li>• ownership distributions.</li> </ul> <p>Other resources and other obligations are categories in addition to the elements, to be reported on the statement of financial position.</p>

### *Ownership Contributions and Ownership Distributions*

PSAB considered including ownership contributions and ownership distributions. But, it determined that:

- differentiating between ownership contributions and government transfers for many public sector entities was problematic;
- ownership distributions and ownership contributions are rare in the public sector and by including them in the conceptual framework they would be given undue prominence; and

- defining a component of net assets or net liabilities as an element contradicts the idea of elements as the most basic building blocks of financial statements (elements may have subcategories but elements cannot be subcategories of something else).

Since ownership distributions and ownership contributions are rare in the public sector, this difference is not expected to have significant implications for the financial statements.

### *Other Resources and Other Obligations*

In paragraph 5.4 of its conceptual framework, IPSASB states:

In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined may be necessary. Consequently, the identification of the elements does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as “other resources” or “other obligations”) when necessary to better achieve the objectives of financial reporting.

IPSASB's conceptual framework also states that “net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position.”

PSAB chose not to adopt these categories. PSAB felt that having only assets and liabilities would lead to a better understanding of an entity's financial position.

Nevertheless, PSAB's proposal to create an “other” component of the net assets or net liabilities position may serve a similar function for PSAB. That “other” component may be used to recognize revenue and expense that PSAB feels should be recognized outside of surplus or deficit when they arise, in order to better serve the accountability objective.

See PSAB's [Statement of Principles, “A Revised Reporting Model for the Canadian Public Sector”](#) for more information on the “other” component of net assets or net liabilities.

Although IPSASB identified the existence of other resources and other obligations in its conceptual framework, IPSASB has not yet identified any transactions that would fall into these categories.

### Asset and Liability Definitions<sup>3</sup>

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<b>Definition of an Asset</b>	
An asset is a present economic resource controlled by an entity as a result of past events and from which future economic benefit is expected to be obtained.	An asset is a resource presently controlled by the entity as a result of a past event.
<b>Definition of a Liability</b>	
A liability is a present economic obligation of an entity to others as a result of past events, the settlement of which is expected to result in a future sacrifice of economic benefit.	A liability is a present obligation of the entity for an outflow of resources that results from a past event.

The key difference from PSAB's proposed asset and liability definitions and that of IPSASB's is that PSAB's proposed definitions include "expectation" of receipt or sacrifice of future economic benefits.

Based on responses received to [Consultation Paper 3](#), PSAB decided to keep "expectation" in the definitions. Removing "expectation", as proposed in Consultation Paper 3, would eliminate the redundancy with the general recognition criteria. This may be theoretically correct, but it could add a workload burden to preparers with little or no increase in the accountability provided by financial statements.

### Revenue and Expense Definition

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<b>Definition of a Revenue</b>	
Revenue, including a gain, is an increase in assets or decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities.	Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.

<sup>3</sup> IPSASB's conceptual framework includes guidance related to the asset and liability definitions. In the Public Sector Accounting Handbook, this guidance is in Section PS 3200, *Liabilities* and Section PS 3210, *Assets*. The review of this guidance is not part of the Concepts Underlying Financial Performance project. This comparison document only looked at the proposals in the Statement of Concepts, "A Revised Conceptual Framework for the Canadian Public Sector".

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<b>Definition of an Expense</b>	
An expense, including a loss, is a decrease in assets or increase in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities.	Expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

IPSASB's revenue and expense definitions only refer to increases or decreases in "net financial position." For added precision, PSAB felt that the revenue and expense definitions should also refer to changes in assets and liabilities that result in changes in net assets or net liabilities.

### Recognition Criteria

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
An item is recognized in the financial statements when: <ul style="list-style-type: none"> <li>• the item meets the definition of an element;</li> <li>• for an item that involves an asset or a liability, it is expected that the related future economic benefits will be obtained or sacrificed;</li> <li>• the item can be measured, and a reasonable estimate can be made of the amount involved.</li> </ul>	The recognition criteria are that: <ul style="list-style-type: none"> <li>• an item satisfies the definition of an element; and</li> <li>• can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.</li> </ul>

PSAB's recognition criteria includes an expectation threshold of realizing inflows or outflows associated with an item. The IPSASB's recognition criteria do not.

IPSASB concluded that their approach (as compared to the threshold approach) is more likely to result in the recognition of information that satisfies the qualitative characteristics.

PSAB is of the view that the threshold should be retained because:

- it appears to be working well in the public sector in Canada;
- including items with a low expectation of realization reduces understandability and would not meet the accountability objective; and

- there is no compelling need or argument to change it.

The implication of IPSASB's recognition approach is that it may recognize more assets and liabilities than would be recognized under PSAB's approach.

### Measurement Attribute

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
Financial statements are prepared primarily by reflecting assets, liabilities, transactions and other events at their historical cost, unless PSAB determines that another measurement attribute better serves the accountability objective.	It is not possible to identify a single measurement basis that best meets the measurement objective. Therefore, the conceptual framework does not propose a single measurement basis for all transactions, events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective.

The difference in the measurement approach may lead to significant differences in the future when developing standards. For now, although the measurement approach of each standard setter is different, a review of the various IPSAS and standards in the CPA Canada Public Sector Accounting Handbook reveals that many similar transactions can be accounted for using the same measurement attributes (e.g., tangible capital assets can be recorded at cost, financial instruments are recorded at fair value). Having said that, it also appears that there is greater use of the fair value measurement attribute in IPSAS as compared to the standards in the Handbook.

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