PSAB

Public Sector Accounting Board

Exposure Draft

The Conceptual Framework for Financial Reporting in the Public Sector

January 2021

COMMENTS TO PSAB MUST BE RECEIVED BY
MAY 12, 2021

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by taking part in the Connect.FRASCanada.ca project or submitting a comment letter addressed to:

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

This Exposure Draft reflects proposals made by the Public Sector Accounting Board (PSAB).

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

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments PSAB receives will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

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Introduction

This Exposure Draft should be read before the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202." The Conceptual Framework Exposure Draft sets the foundation for the proposed financial statement presentation standard.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue a revised Conceptual Framework that would include 10 chapters as illustrated by the following diagram. The revised Conceptual Framework would replace the conceptual aspects of FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100.

Existing Conceptual Framework

- FINANCIAL STATEMENT CONCEPTS, Section PS 1000
- FINANCIAL STATEMENT OBJECTIVES, Section PS 1100

Proposed Conceptual Framework

- Chapter 1: Introduction to the Conceptual Framework
- Chapter 2: Characteristics of Public Sector Entities
- Chapter 3: Financial Reporting Objective
- Chapter 4: Role of Financial Statements
- Chapter 5: Financial Statement Foundations
- Chapter 6: Financial Statement Objectives
- Chapter 7: Financial Statement Information: Qualitative Characteristics and Related Considerations
- Chapter 8: Elements of Financial Statements
- Chapter 9: Recognition and Measurement in Financial Statements
- Chapter 10: Presentation Concepts for Financial Statements

The Basis for Conclusions, which accompanies this Exposure Draft, sets out PSAB's reasons for its positions.

Main Features of the Exposure Draft

The following diagram summarizes the main features of this Exposure Draft.

Chapter 1

Introduction to the Conceptual Framework

A conceptual framework is the foundation for principles-based standards. It is a coherent set of interrelated objectives and fundamentals that lead to consistent standards or the application of consistent concepts in the absence of specific standards.

Chapter 2

Characteristics of Public Sector Entities

Public sector entities exist to serve the public. Their key characteristics are:

- inherent public accountability;
- unique governance structures;
- multiple public interest objectives;
- nature and use of public resources;
- volume and financial significance of non-exchange transactions; and
- longevity of the public sector.

Characteristics and user needs lead to the accountability objective and the broad financial reporting accountabilities.

Chapter 3

Financial Reporting Objective

The overriding characteristic of public sector entities is their inherent accountability to the public.

The objective of financial reporting is to provide financial information for accountability purposes to primary users.

- Primary users = the public and its elected or appointed representatives.
- Broad financial reporting accountabilities:
  - Financial condition (one aspect of service capacity).
  - Financial performance (one aspect of change in service capacity).
  - Comparison to financial authorities and plan.
- Financial statements provide some of the information needed to meet the broad accountabilities.

Financial Statement Concepts

Chapter 4

Role of Financial Statements

- Help fulfill a public sector entity's duty to be publicly accountable.
- Include information to help satisfy the broad financial reporting accountabilities.

Chapter 5

Financial Statement Foundations

- Identifiable reporting entity
- Control
- Monetary unit = Canadian $ with no adjustment for changes in purchasing power
- Basis of accounting = accrual accounting

Chapter 6

Financial Statement Objectives

- Scope of financial statements = reporting entity.
- Reporting financial position = ability to serve the public in terms of economic resources and economic obligations (financial position consists of multiple components).
- Reporting changes in financial position = sources, allocation and consumption of the entity's economic resources (including cash requirements).
- Comparison to budget.
- Disclosing non-compliance with financial authorities.
- Disclosing risks and uncertainties.

Objectives are met through reporting model.

Chapter 7

Financial Statement Information: Qualitative Characteristics and Related Considerations

<u>Qualitative Characteristics</u>

- Relevance
  - Confirmatory and predictive value
- Faithful representation
  - Substance over form
  - Completeness
  - Neutrality
  - Free from material error
- Verifiability
- Comparability
- Understandability
- Timeliness

<u>Related Considerations</u>

- Benefit versus Cost
- Materiality
- Prudence

Chapter 8

Elements of Financial Statements

- Assets
- Liabilities
- Revenue
- Expense

No deferrals that are not assets and liabilities.

No equity element.

Certain revenue and expense of a period may be recognized outside surplus or deficit in the period they arise (i.e., directly in a component of net assets or net liabilities).

Chapter 9

Recognition in Financial Statements

Recognition criteria include:

- Element definition met.
- Future economic benefits expected to be obtained or sacrificed.
- Item can be measured.

Measurement in Financial Statements

- Historical Cost = primary measurement attribute.
- Other measurement attributes, such as fair value, may be determined by PSAB to better serve the accountability objective.
- Going concern assumption.

Chapter 10

Presentation (including Disclosure) Concepts for Financial Statements

Reporting Model – Standards Level (GAAP) – Proposed Section PS 1202

The main features of the Exposure Draft are as follows:

- **Chapter 1: Introduction to the Conceptual Framework**: This chapter defines a conceptual framework and outlines the need for and objectives of the proposed Conceptual Framework. There is no equivalent content in the existing CPA Canada Public Sector Accounting (PSA) Handbook. PSAB felt that it was important for this chapter to set the foundation for the proposed Conceptual Framework itself.
- **Chapter 2: Characteristics of public sector entities**: This chapter builds on and would replace Appendix A, "Unique Characteristics of Government," to Section PS 1100. Identifying the characteristics of public sector entities will result in concepts and standards that are appropriate to the public sector.
- **Chapter 3: Financial reporting objective**: This chapter clearly identifies:
  - the primary users as the public and its elected or appointed representatives;
  - the financial reporting objective as the need to provide information for accountability purposes; and
  - the broad financial reporting accountabilities.
- **Chapter 4: Role of financial statements**: The purpose of this chapter is to create a link between financial reporting more broadly and financial reporting in financial statements, as the remainder of the proposed Conceptual Framework focuses on the concepts and foundations necessary for financial statement reporting.
- **Chapter 5: Financial statement foundations**: Most of the content in this chapter is new. While the foundations underlie the existing conceptual framework, not all of them are clearly identified; so PSAB feels that it is important to clearly identify and explain them.
- **Chapter 6: Financial statement objectives**: This chapter builds on and revises the objectives set out in Section PS 1100.
- **Chapter 7: Financial statement information**: Qualitative characteristics and related considerations: This chapter establishes the qualitative characteristics of financial information and related considerations for including such information in financial statements.
- **Chapter 8: Elements of financial statements**: This chapter defines and explains the four elements recognized in financial statements: assets, liabilities, revenues and expenses. These form the basic building blocks of financial statements. Aggregating information into common classifications that characterize their nature enhances the users' ability to understand the large numbers of items, transactions and other events summarized in financial statements.
- **Chapter 9: Recognition and measurement in financial statements**: This chapter discusses the general recognition criteria and the measurement attribute. These remain substantively the same as those in the existing conceptual framework.
- **Chapter 10: Presentation concepts for financial statements**: Some of the concepts in this chapter are based on paragraphs that exist in FINANCIAL STATEMENT PRESENTATION, Section PS 1201. PSAB felt that some of the paragraphs were more conceptual in nature and should be moved to, or foreshadowed in, the proposed Conceptual Framework. New presentation concepts have also been added to promote the preparation of understandable financial statements to meet the accountability objective.

- **Recognition exclusions**: Currently, the PSA Handbook sets out exclusions from recognition in financial statements in the conceptual framework. These exclusions relate to:
  - natural resources and Crown lands that have not been purchased;
  - developed and inherited intangibles; and
  - works of art and historical treasures.

  These exclusions are proposed to be moved to the financial statement presentation standard, proposed Section PS 1202, until PSAB considers the topics. Such exclusions are standards-level decisions, not concepts underlying financial statements.

Implications of the Proposals

Immediate effects

The Conceptual Framework is not a standard and does not override specific standards. Hence, the changes to the existing conceptual framework would not have an immediate effect on the financial statements of most reporting entities. However, entities could be affected by the changes if they need to use the revised Conceptual Framework to develop or select accounting policies when no standard specifically applies to a particular economic resource, economic obligation, transaction or other event. In such circumstances, the revised Conceptual Framework would be applied prospectively. Applying the new presentation concepts in Chapter 10 of the proposed Conceptual Framework may lead entities to review their financial statement disclosures.

Although the revised Conceptual Framework would not have an immediate effect on the financial statements of most reporting entities, PSAB has also issued a proposed reporting model, in Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202," which would have an effect. Please refer to it to see how it would affect preparers and users of financial statements.

In the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework," PSAB proposes to update references to the proposed Conceptual Framework in standards and make other necessary amendments to the PSA Handbook as a result of the proposed Conceptual Framework.

PSAB will start using the revised Conceptual Framework once it is issued. The revised concepts will guide the Board as it develops or amends standards.

Future effects

A more complete, clear and updated set of concepts will help PSAB develop standards that better meet the needs of the primary users. Because the revised Conceptual Framework will guide PSAB when it develops standards, it would affect financial statements when entities implement new or revised standards based on the revised Conceptual Framework. However, PSAB will not automatically revise existing standards and change accounting practice simply because of an inconsistency with the Conceptual Framework. Any decision to amend an existing standard that is inconsistent with the Conceptual Framework and that would change accounting practice would require the Board to go through its normal due process for adding a project to its technical agenda, developing an exposure draft and amending the standard.

Comments Requested

PSAB welcomes comments from individuals, governments and organizations.

PSAB is seeking responses to the following question:

Do you agree with the concepts in the proposed Conceptual Framework?

Comment on this document by taking part in the Connect.FRASCanada.ca project or submitting a comment letter.

If you provide detailed comments, they are most helpful if they relate to a specific concept, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

The deadline for providing your comments to PSAB is May 12, 2021.

EXPOSURE DRAFT

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CHAPTER 1: INTRODUCTION TO THE CONCEPTUAL FRAMEWORK

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Introduction

1.01 This chapter defines a conceptual framework and outlines the need for and the objectives of the Conceptual Framework.

1.02 Concepts provide a meaningful foundation for formulating consistent financial reporting standards. Standards comprise the principles and other guidance applicable in specific situations or more generally in preparing financial reports.

1.03 Managing and allocating public money means that public sector entities are accountable to the public. Public accountability requires public sector entities to fairly present financial information to the public and its elected or appointed representatives. For financial statements to offer a fair presentation of the economic circumstances, readers need to be confident that the financial statements follow objectively determined concepts and standards.

1.04 The merits of proposed concepts and standards are assessed from a neutral position. They are not evaluated for their possible impact on behaviour (i.e., a behaviour to promote or discourage certain activities). The primary justification for concepts and standards is based on improving accountability. In either formulating or implementing objective concepts and standards, the primary concern is the quality of the information that results, not how the requirements may affect a particular interest.

A Conceptual Framework

1.05 A conceptual framework is a coherent set of interrelated concepts underlying accounting and financial reporting standards. It prescribes the nature, function and limits of financial accounting and reporting. It is the foundation on which standards are developed and **professional judgment** is applied.[1] The Conceptual Framework is not a standard.

1.06 Nothing in the Conceptual Framework overrides any specific standard. PSAB applies the Conceptual Framework when developing standards.

1 Terms that appear in **bold** are defined in the glossary.

1.07 With respect to the preparation of general purpose financial statements, standards are referred to as generally accepted accounting principles (GAAP). A conceptual framework is not part of GAAP but provides the framework within which GAAP is developed. Ultimately, GAAP is the higher authority in determining the accounting treatment in specific situations.

1.08 GAAP evolves and is revised as required to reflect changing circumstances. At any time, there may be standards that are inconsistent with the Conceptual Framework. Any inconsistency between the Conceptual Framework and an existing standard may be reviewed when re-examination of that standard is a priority for PSAB's technical agenda.

1.09 To meet the objective of financial reporting, PSAB may, in the future, specify requirements that depart from aspects of the Conceptual Framework. Any inconsistency between the Conceptual Framework and new standards will be justified in the relevant basis for conclusions document.

Need for a Conceptual Framework

1.10 Adopting a conceptual framework represents a deliberate choice of a principles-based, standard-setting approach and requires the exercise of professional judgment. Professional judgment is exercised by an experienced and knowledgeable person, with due care, objectivity and integrity, within a framework of professional standards.

1.11 A conceptual framework is a set of core concepts on which to base sound, internally consistent standards. It helps stakeholders understand and apply standards and contribute to their development.

1.12 A conceptual framework serves the public interest by:

(a) providing structure and direction;

(b) setting out common concepts;

(c) providing precise terminology;

(d) guiding the exercise of professional judgment in making choices that are consistent with the Conceptual Framework and excluding from consideration potential solutions that conflict with it; and

(e) imposing intellectual discipline on the reasoning process used to develop standards.

1.13 The Conceptual Framework will lead to increased public confidence in financial statements by supporting the development of a cohesive set of accounting standards for public sector entities in Canada. Like GAAP, a conceptual framework is evolutionary and over time may be revised to reflect changing circumstances.

Applicability of the Conceptual Framework

1.14 The Conceptual Framework applies to public sector entities that prepare general purpose financial statements in accordance with the PSA Handbook.[2]

Objectives of the Conceptual Framework

1.15 The objectives of this Conceptual Framework are to assist:

(a) the standard setter develop future accounting standards and guidance and review existing standards and guidance;

(b) stakeholders evaluate proposed standards as part of the due process of standard setting;

2 General purpose financial statements are called "financial statements" for the remainder of the Exposure Draft.

(c) preparers of financial statements:

   (i) apply accounting standards;

   (ii) apply and interpret a standard when professional judgment is required; and

   (iii) account for transactions and other events that have yet to form the subject of a standard;

(d) auditors form opinions regarding compliance with accounting standards;

(e) users of financial statements interpret the information in financial statements; and

(f) those who are interested in the work of the standard setter learn more about its approach to setting accounting standards.

Components of the Conceptual Framework

1.16 The main components of this Conceptual Framework include:

(a) characteristics of public sector entities;

(b) objective of financial reporting;

(c) primary users of financial reporting;

(d) expectations of those users;

(e) role of financial statements;

(f) financial statement foundations and objectives;

(g) qualitative characteristics of information and related considerations;

(h) definitions of elements;

(i) general recognition and derecognition criteria;

(j) general measurement concepts; and

(k) general presentation concepts.

Components (a)-(d) are relevant to all financial reporting. Components (e)-(k) relate solely to the reporting in financial statements.

CHAPTER 2: CHARACTERISTICS OF PUBLIC SECTOR ENTITIES

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Introduction

2.01 This chapter identifies the key characteristics of public sector entities that have financial reporting implications. These characteristics fundamentally shape the objective of public sector financial reporting.

2.02 Identifying the characteristics of public sector entities, which include governments, government components and government organizations, will result in concepts and standards that are appropriate to the public sector.

Purpose of Public Sector Entities

2.03 *Public sector entities exist to serve the public.*

2.04 A public sector entity serves the public in different ways; for example, by providing goods and/or services or by being stewards of public resources. A government serves the public through its components and organizations. This purpose is the lens through which key characteristics of public sector entities for financial reporting purposes are identified.

Characteristics of Public Sector Entities

2.05 *The key characteristics of public sector entities are:*

- *(a) inherent public accountability;*
- *(b) unique governance structures;*
- *(c) multiple public interest objectives;*
- *(d) the nature and use of public resources;*
- *(e) the volume and financial significance of non-exchange transactions; and*
- *(f) longevity of the public sector.*

2.06 *Inherent public accountability is the overriding characteristic of public sector entities because they are:*

- *(a) entrusted with public resources; and*
- *(b) responsible for how public resources are used, managed and maintained.*

2.07 Public sector entities vary. Governments are likely to have all of the characteristics. On the other hand, an individual government component or government organization may not share all of these characteristics. Government components and government organizations may have some unique characteristics that are different from those of the government.

2.08 A government's decisions will affect the objectives, structure, operations and financing of its components and organizations. Government components and government organizations are created through government policy, legislation or bylaws. A spectrum of organizational structures and accountability relationships exist within a government to fulfill its responsibility to serve the public. A government, for example, can serve the public through its components and organizations, with organizations generally having greater autonomy than components. Both types of entities are extensions of government and their role is to implement government policy and fulfill government responsibilities.

2.09 Government components are integral to government and essentially form the core of government. Depending on their objective(s), they may have some or all the characteristics of government. Some may have only a few of the characteristics identified, functioning merely as an administrative unit of government. Others may have more of the characteristics because of their broad and multiple objectives, delegated rights and responsibilities for significant government programs.

2.10 Government organizations are separate organizations. They are accountable to the public from which they receive resources. Government organizations have some of the key characteristics identified because of their responsibility to deliver key government programs.

Description of the Characteristics

Inherent public accountability

2.11 *The public is entitled to and demands accountability from governments, their components and their organizations because of:*

(a) a government's power to tax and otherwise obtain and use public resources;

(b) the ability of other public sector entities to obtain and use public resources;

(c) their ability to exercise powers and rights and fulfill responsibilities in the public interest;

(d) their capacity to issue debt, which can impact their sustainability; and

(e) the commitments made for which reporting against the budget becomes an important mechanism for ensuring accountability.

2.12 Public accountability requires justifying the raising of public resources and how those resources are used, managed and maintained. It is based on the premise that the public has a democratic right to transparency and especially to receiving information that may lead to debates by the public and its elected or appointed representatives. Demonstrating public accountability is the overriding characteristic of public sector entities. Financial reporting plays a major role in fulfilling a public sector entity's duty to be publicly accountable.

2.13 Public accountability for a conferred responsibility normally involves:

(a) setting and communicating measurable goals;

(b) planning what needs to be done to achieve the goals;

(c) doing the work and monitoring the progress;

(d) reporting on the achievement of the goals; and

(e) evaluating results and providing feedback.

2.14 Public accountability is enhanced if goals and responsibilities are clearly defined. It is difficult to hold entities accountable for their performance if goals and responsibilities are vague and ambiguous.

2.15 The complexity of a government and the varied relationships it has with its components and organizations add to the need for public accountability.

2.16 Accountability is strengthened when financial information is presented in a transparent manner.

Ability to obtain and use public resources

2.17 The ability to obtain and use public resources is significant because public sector entities are entrusted with these public resources and, as a result, have a responsibility for their stewardship. As resource providers, the public demands public accountability regarding how public resources are used, managed and maintained.

2.18 Public sector entities can obtain public resources, either through the power to tax or through other means such as government transfers, donations, etc. These public resources are often significant.

2.19 Taxation:

(a) involves the exercise of a power provided for in the Constitution or devolved or delegated through legislation or bylaws or inherent through Indigenous community rights;

(b) does not involve negotiation with, or agreement by, the individual taxpayer; and

(c) requires taxes to be paid that are generally not commensurate with the value of services received by each taxpayer.

2.20 Government transfers are transfers of resources for which the government making the transfer does not:

(a) receive any goods or services directly in return, as would occur in a purchase, sale or other exchange transaction;

(b) expect to be repaid in the future, as would be expected in a loan; or

(c) expect a direct financial return, as would be expected in an investment.

2.21 A donation is a gift. It is a public resource. Donors tend to be taxpayers who may benefit from charitable tax receipts that reduce taxes otherwise payable to governments.

Powers, rights and responsibilities (constitutional, devolved, delegated, inherent)

2.22 Governments have also been granted the authority, among other things, to:

(a) penalize and fine;

(b) issue licences to act, use or access;

(c) make and enforce laws and regulations;

(d) employ unique resources;

(e) charge royalties for the use or consumption of public resources;

(f) issue debt;

(g) nationalize private organizations;

(h) amalgamate or restructure other public sector entities;

(i) set monetary policy; and

(j) set fiscal policy.

2.23 In return, governments may be responsible for:

(a) meeting constitutional, devolved, delegated or inherent duties;

(b) setting policies to manage the issues of the jurisdiction in an economic, efficient, effective, sustainable and transparent manner through the stewardship and application of the public resources entrusted to them;

(c) delivering services and reallocating resources to meet identified policy objectives;

(d) acting as a residual risk holder in the jurisdiction by assuming risks arising in extraordinary circumstances and risks to the public that are otherwise unassumed or uninsured, regardless of whether it has a contractual requirement to bear the risk;

(e) being accountable for the economic, efficient, effective, sustainable and transparent management, stewardship and use of the public resources entrusted to it; and

(f) being good, ongoing and perpetual managers of the economy and the business of government.

2.24 Governments' powers and/or rights and responsibilities:

(a) may be exercised or accomplished through their components or organizations.

(b) give governments the ability to directly and indirectly affect the environment and the economy in which they operate.

(c) affect the nature and extent of the public accountability they provide.

As a result, the need for transparency and accountability to the public and its elected or appointed representatives regarding the exercise of these powers and/or rights, and the accomplishment of these responsibilities, are critical to the integrity of the democratic process.

Debt capacity

2.25 Public sector entities may choose to issue debt for various reasons, such as financing infrastructure projects that will provide benefits to multiple generations, or for ongoing operations. The federal and provincial governments' debt capacity is limited by the ability of the tax base of their jurisdiction to bear that debt and the financial community's assessment of that ability. Some territorial, local and Indigenous governments, and some government organizations have legislated restrictions on the amount and type of debt that can be issued. Public accountability regarding the debt burden is necessary as these debts will normally be paid with public resources. This will affect future generations and the sustainability of services and programs.

2.26 With respect to some government organizations, debt may be issued and other liabilities incurred centrally by government. Government allocates financial resources to government components and organizations through appropriations or transfers for their operations. It does not generally allocate debt and centrally managed liabilities to government components or organizations. Some indebtedness of public sector entities arises through contractual arrangements and other obligations.

Importance of the budget

2.27 Important aspects of public accountability are provided by comparing actual with budgeted performance. In the financial statements, the complexity of that comparison will vary depending on the nature and extent of differences between the actuals and the budget. The basis of accounting used for the budget, the scope of activities and whether the budget will be prepared in accordance with GAAP are separate decisions. Accountability is better demonstrated in financial statements if the budget is prepared on a comparable basis with the financial statements.

2.28 A government's budget is a policy document that presents the costs of implementing policies, the mandated priorities and legislative requirements and the associated resource requirements. Budgets of individual government components and government organizations reflect a subset of the government's policies. Therefore, their budgets are also considered policy documents.

2.29 Most governments prepare and issue budgets as public documents. The budget, at the government level, is a management tool used to hold governments accountable for compliance with and performance against it. The budget reflects the financial considerations of the government's plan to implement its priorities, and otherwise deliver public services for the forthcoming period. It facilitates, and is a crucial component of, the public accountability cycle. It is a central part of the process that provides for legislative or council oversight of the financial dimensions of operations.

2.30 Most government organizations will have a budget. At a minimum, a government organization's budget provides the authority to spend for the upcoming period once it is approved by the appropriate authority(ies). The budget may also represent a strategic document. Events, emerging information, controlling-government or organizational decisions and/or changes in priorities may result in updated forecasts during the year.

2.31 The budgets of government components and government organizations are normally reflected in the government's overall budget, as these entities are an integral part of government. Many government components and organizations are required or choose to make their own budget publicly available. Like governments, they are held accountable for compliance with and performance against those documents. The content, structure and presentation of budgets is often subject to legislative frameworks enacted by governments to respond to specific and unique public policy interests, and to meet transparency priorities of legislators, councillors and the general public.

2.32 Public consent for public sector activities is generally sought through preparing budgets for approval by elected or appointed representatives. Legislators and councillors publicly debate and approve a budget. The government is accountable for implementing budgets, directly through its components or indirectly through its organizations. Not all activities of an entity may be anticipated in a budget.

2.33 For all public sector entities, the details of the budget require legislative, council or board approval for an entity to have the authority to implement the budget.

Unique governance structures

2.34 Governance for public sector entities ultimately derives from the Constitution, legislation and the public through its elected officials or appointed representatives, and through Indigenous community inherent rights.

2.35 For governments, the governance structure comprises elected officials or appointed representatives:

(a) For Indigenous governments, governance is provided by the elected or hereditary leadership, or some combination of both.

(b) For federal, provincial and territorial governments, governance is provided by the legislature.

(c) For local governments, governance is provided by the elected council or its equivalent.

This same structure generally forms the governance structure for government components.

2.36 For some government organizations, the board of directors or other administrative body grants the authority for the organization's financial and operating processes in accordance with the government's authority, mandate and overall policies. These governing bodies have a variety of structures and means of electing or appointing members. How an organization's governing body is structured, and how authority and responsibility have been delegated to it, affects the nature and extent of the accountabilities demanded of it.

2.37 Many governance structures in the public sector share the following distinct features:

(a) The structures are based on the Constitution or derived through the powers and rights set out in it, or an Indigenous government's inherent rights.

(b) The political dimension of governance involves elected, appointed or hereditary public officials managing public resources.

(c) The obligation to comply with the operating and financial frameworks is set out in legislation.

(d) Services are often provided in a monopolistic environment.

(e) There is a lack of or minimal equity ownership.

Canada's constitutional structure

2.38 Canada's unique constitutional structure includes two levels of sovereign government with distinct constitutional responsibilities. Major projects or initiatives often involve complex, shared funding arrangements and political announcements at various levels.

2.39 The federal and provincial governments are sovereign under the Constitution, which sets out their areas of responsibility.

2.40 The territories are creations of the Parliament of Canada, and exercise devolved, not sovereign, powers and rights.

2.41 Local governments fall under the jurisdiction of the provinces and territories, which are responsible for creating local governments and setting out their responsibilities.

2.42 The Constitution recognizes and affirms existing Indigenous and treaty rights of the Indian, Inuit and Métis peoples of Canada. Indigenous government jurisdiction may be established, affirmed or recognized in Canada by federal and, where applicable, provincial and territorial governments through treaties, self-governing agreements, legislation and policy.

Political dimension of governance

2.43 In Canada, elections for governments are held at all levels: federal, provincial, territorial, local and Indigenous.

2.44 Canada and its provinces have a multi-party, democratic, Westminster parliamentary system of governance. It includes the potential for majority or minority Parliament, election calls in jurisdictions without fixed election dates and prorogation of Parliament or legislature.

2.45 The political dimension of governance in the public sector may also be a factor for government components and organizations.

2.46 The political dimension of governance in the public sector reinforces the need for public accountability. The ultimate accountability to the public is accomplished through the electoral process.

Operating and financial frameworks set out in legislation

2.47 Operating and financial frameworks are established by legislation to help document the nature of an entity's authority and responsibility for serving and protecting the public interest.

2.48 The various operating and financial frameworks across the country have some similarities and differences. Such frameworks are established to reflect the policy choices and underlying structures of individual jurisdictions.

2.49 Public sector entities must operate within, and demonstrate their compliance with, their operating and financial frameworks. Transparency and public accountability for the promises and policies set out in, or flowing from, legislation is a fundamental part of public sector reporting.

2.50 Legislated frameworks may impose restrictions on a public sector entity's ability to raise revenue, incur expenses or commit to future actions, prohibit certain actions or require others. They may also establish accountability requirements. For example, appropriations, set out in the legislative frameworks of certain governments, give those governments the legal authority to spend.

Monopolistic environment

2.51 Public sector entities provide services that the private sector would generally not provide at the quantity, quality and price considered appropriate by public policy. More importantly, these services are in areas of responsibility established in the Constitution or devolved to other levels of government or delegated to government components or organizations such that private sector entities may not provide them.

Lack of or minimal equity ownership

2.52 Most public sector entities are not created to enhance the economic position of those with an equity ownership. However, they may do so to maintain or enhance the ability of an entity to continue to meet its public interest objectives. Most public sector entities are created:

(a) by an Indigenous government exercising its inherent rights;

(b) through the Constitution (i.e., federal and provincial governments);

(c) by a constitutional government (i.e., territorial and local governments);

(d) by a government (i.e., government components and organizations); or

(e) by a contractual arrangement between the government or a government organization and a party or parties outside of the reporting entity (i.e., partnership).

2.53 Public sector entities are normally created without equity ownership or with nominal equity ownership to consummate their incorporation. Some exceptions exist, but this characteristic describes most equity ownership structures in the public sector.

Multiple public interest objectives

2.54 Public sector entities tend to have multiple objectives to meet the public expectations of how the public interest is served. Some government components or organizations have a single objective, rather than multiple objectives. Nevertheless, that objective is consistent with the government's overarching objective of serving the public interest.

2.55 The multiple public interest objectives include:

(a) provision of public goods and services;

(b) resource reallocation;

(c) stewardship of public resources; and

(d) peace, order and good government.

2.56 Policy development and implementation are the tools through which these objectives are accomplished, and the public interest is served.

Provision of public goods and services

2.57 Public sector entities generally exist to provide public goods and services.

Resource reallocation

2.58 Resource reallocation is often characterized as a redistribution of wealth to jurisdictions, entities and individuals that require financial assistance or to distribute resources across the economy of a jurisdiction. Resource reallocation occurs in accordance with policy objectives, such as welfare, economic stimulus and equalization.

Stewardship of public resources

2.59 Public sector entities are expected to maintain the public resources entrusted to them, including the capital infrastructure that supports the economic activities of a jurisdiction. Stewardship of public resources means that they are managed with the intent of ensuring the capability of these systems to survive and adapt to support current and future generations.

Peace, order and good government

2.60 "Peace, order and good government" is a phrase included in the Constitution to capture any responsibilities not contemplated when the Constitution was written or revised. It is interpreted to include emergency powers. It is also a residuary power in the sense that any matter not constitutionally conferred on the provinces that is of national dimension or importance comes within the power of the Parliament of Canada.

Nature and use of public resources

2.61 Most of the resources held by public sector entities have been provided by, inherited or received on behalf of the public.

2.62 Some public resources are held for service provision, such as infrastructure. Some are held perpetually for stewardship reasons, such as heritage and cultural resources. Some are held for future commercialization, service provision or disposal.

2.63 Public resources are either financial or non-financial in nature. Some significant categories of public resources are:

(a) resources inherited in right of the Crown including Crown lands and related natural resources (recognizing that some entities might also hold purchased natural resources);

(b) heritage and cultural resources, including those in collections;

(c) tangible capital resources, including complex infrastructure systems;

(d) intangible resources (e.g., air and sea rights, the ability to regulate access to the electromagnetic spectrum, as well as purchased intangibles); and

(e) financial resources, including investments.

2.64 Public sector entities hold significant non-financial resources. Many of these non-financial resources are held for the primary objective of providing goods and services.

Volume and financial significance of non-exchange transactions

2.65 Many transactions in the public sector are non-exchange transactions. Many sources of revenue (e.g., tax revenue, government transfers, donations) arise from non-exchange transactions. Many non-exchange transactions, such as taxes, fines and penalties, are involuntary, in contrast to donations, which are voluntary. The proportion of exchange to non-exchange transactions of some government organizations may be higher than for governments.

2.66 Non-exchange transactions of public sector entities typically include:

(a) taxes;

(b) transfers;

(c) fines and penalties;

(d) fees that do not give rise to performance obligations;

(e) social benefits (e.g., welfare, Old Age Security); and

(f) donations and contributions (monetary and non-monetary).

2.67 In non-exchange transactions, there is seldom a direct relationship between resources raised and services provided. Whenever an organization uses resources obtained from others to accomplish its objectives, accountability is expected regarding the use of those resources. When resources are raised through non-exchange transactions, especially transactions like taxation, an even higher degree of accountability is required to be demonstrated regarding the sourcing, extent and use of the resources and related compliance with the approved budget.

Longevity of the public sector

2.68 Many public sector programs are expected to be provided well into the future. As a result, many public sector entities are expected to be long-term entities.

2.69 Governments are long-term institutions. Under normal circumstances, they, and the related government components that function as a core government, are expected to operate in perpetuity. Similarly, many government organizations have existed for a long time and are expected to provide services far into the future. These too would be considered long-term organizations. However, government organizations may not have the same longevity as a government as the controlling government may, for policy reasons, reallocate resources or reorganize the structure of government organizations to deliver programs.

2.70 The longevity of public sector entities affects the going concern concept that underpins the preparation of the financial statements.[3]

3 The going concern concept is discussed further in Chapter 9, “Recognition and Measurement in Financial Statements.”

CHAPTER 3: FINANCIAL REPORTING OBJECTIVE

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Introduction

3.01 This chapter identifies the financial reporting objective. Identifying this reporting objective leads to the determination of the primary users and the broad financial accountabilities expected to be demonstrated in financial reports.

3.02 Identifying a financial reporting objective is important because it identifies a goal and purpose for the reporting. Consequently, the qualitative characteristics of financial information and the concepts for recognition, measurement and presentation follow logically from that objective. The objective also provides guidelines for developing compatible financial reporting practices.

Overriding Objective of Financial Reporting

3.03 *The objective of financial reporting by public sector entities is to provide information for accountability purposes.*

3.04 Chapter 2 identified inherent public accountability as the overriding characteristic of public sector entities. As a result, the overriding objective of public sector financial reporting is to demonstrate this public accountability.

3.05 Complete, transparent information provided for accountability purposes contributes to, and informs decision making by various users.

3.06 Demonstrating public accountability can take various forms given the multiple objectives of public sector entities. Public accountability focuses broadly on:

(a) governance;

(b) performance;

(c) stewardship; and

(d) sustainability.

3.07 Public accountability requires considering to whom a public sector entity is accountable and for what.

Accountable to Whom?

3.08 *A public sector entity is accountable to the public and its elected or appointed representatives. The public and its elected or appointed representatives are the primary users of public sector financial reports. Public sector financial reports are prepared for the primary users.*

3.09 Public sector financial reporting information is directed at meeting the needs of a wide range of users, with the public and its elected or appointed representatives being the primary users.[4]

3.10 The term "public" is used in its usual sense, meaning the community in general or the people and organizations of the jurisdiction as a whole. Indigenous members are to Indigenous governments what the public is to other governments. Generally, the public primarily looks to a public sector entity for accountability from these perspectives — as resource providers, as service recipients or both.

3.11 "Elected or appointed representatives" refers to the elected or appointed body, such as the legislature or council, and includes legislators, councillors and, in the case of government organizations, the elected or appointed board members. In the case of Indigenous governments, "elected or appointed representatives" can also refer to hereditary representatives depending on the governance model in place. The public relies on its elected or appointed representatives to act on its behalf to influence the government, or in the case of board members, to influence the government organization. Generally, elected or appointed representatives look to a public sector entity for accountability from the perspective of policy implementation and results.

3.12 The public and its elected or appointed representatives hold the entity accountable for the management and use of public resources. These users, especially the public, may have differing degrees of knowledge about the economic environment in which public sector entities operate. Further, the public and its elected or appointed representatives may not have access to intermediaries, such as investment analysts, who can help interpret financial reports for them. Therefore, public sector financial reports must include financial information that is clear and understandable. However, financial reports can neither exclude nor simplify complex transactions so that their substance is misleading.

3.13 In developing financial reporting concepts and standards, standard setters presume that those who use the resulting information have a reasonable knowledge of economic activities and some understanding of financial reports. Standard setters also presume that financial report users will review and analyze the information with reasonable diligence. However, it is understood that users may need assistance to understand complex **economic resources**,[5] **economic obligations**, transactions and other events presented in the financial reports. Nevertheless, financial reports would be made as understandable as possible for the users.

3.14 Financial report preparers are presumed to exercise due care in implementing financial reporting requirements. Exercising due care includes understanding the reporting requirements for an item, transaction or other event, applying those requirements properly and presenting the resulting information clearly and concisely.

4 The primary users are referred to as "users" for the remainder of the Exposure Draft.

5 Bolded terms are defined in the Glossary.

3.15 The usefulness of financial information is maximized for accountability purposes when it is understandable to the public and its elected or appointed representatives.

3.16 Complete, transparent information provided for accountability purposes contributes to, and informs decision making by all users. Information about the costs of past service delivery, the amount and sources of cost recovery, and the resources available to support future activities, are necessary to discharge accountability. This information, when combined with both internal and external contextual information, such as economic outlooks, stability measures, demographic and labour market analysis, productivity, outcome and societal well-being reports, aids in understanding effectiveness and will also be useful for decisions made by:

(a) citizens who vote in elections or advocate for policy and programs;

(b) elected officials or appointed representatives who set future policies or budget directives and define future programs;

(c) management who execute policy directives and steward public resources; and

(d) donors and other financial supporters who provide resources.

3.17 Rating agencies, statisticians, analysts, media, financial advisors, investors, creditors, public interest and lobby groups, and others may find the information provided by the financial reports useful. Some users have the ability to require financial reports tailored to meet their specific information needs (e.g., regulatory and oversight bodies, subcommittees of the legislature or other governing body and central agencies).

3.18 Reporting that has a public accountability objective is broader than reporting that focuses on the needs of specific users.

Accountable for What?

Serving the public

3.19 Chapter 2, “Characteristics of Public Sector Entities,” identifies the purpose of public sector entities: to serve the public. This purpose is a public sector entity’s overriding objective. As such, identifying and measuring a public sector entity’s capacity or ability to serve the public is important. This capacity or ability is referred to as “**service capacity**”. Multiple, secondary objectives that describe how a public sector entity serves the public are also set out in Chapter 2.

3.20 An entity’s service capacity is broadly affected by, but is not limited to:

(a) its powers to tax, legislate and regulate, license, fine and penalize or otherwise raise public resources;

(b) its ability to borrow (i.e., its debt capacity);

(c) the productivity, efficiency and effectiveness of its resources and programs;

(d) the skills and capabilities of its labour force;

(e) the innovativeness of its people and programs;

(f) its funding relationships and the stability of its funding arrangements; and

(g) its economic resources net of its economic obligations.

3.21 An entity's service capacity may change as a result of many factors, such as:

(a) the activities or events during the accounting period;

(b) economic conditions;

(c) changes in funding relationships or arrangements;

(d) policy and asset management decisions of the entity; and

(e) changes in leadership or governance.

3.22 Reporting on service capacity and service capacity maintenance responds to the stewardship and sustainability aspects of accountability, as an entity's service capacity will affect its ongoing ability to meet its objectives in the short and long term.

3.23 The notion of service capacity is not strictly financial, as evidenced by the list of factors affecting service capacity in paragraph 3.20. Nevertheless, the service capacity concept has implications for identifying the broad accountabilities of financial reporting, specifically **financial condition** and **financial performance**. Reporting on financial condition provides insight into an entity's service capacity. Reporting on financial performance provides insight into how an entity's decisions, transactions and other events of the period have affected its service capacity.

Broad accountabilities in financial reporting

3.24 *The broad financial accountabilities expected to be reported in the financial reports of public sector entities are:*

(a) the entity's financial condition;

(b) the entity's financial performance; and

(c) the extent to which the entity performed in accordance with its financial authorities and plan.

Financial condition

3.25 Financial condition describes an entity's financial health in the context of the overall economic and financial environment.

3.26 Reporting on the state of an entity's financial condition includes reporting information that considers the:

(a) aspects and indicators of its capacity to serve the public;

(b) sustainability of the entity and its policies and programs; and

(c) risks associated with the entity.

Financial performance

3.27 Financial performance is a measure of an entity's accountability for the results of its policies, operations and activities for an identified period.

3.28 Reporting on an entity's financial performance includes reporting information that considers the effects the entity's activities, policies and programs in the reporting period had on:

(a) its capacity to serve the public;

(b) the effectiveness of its management of resources in serving the public; and

(c) the extent to which the entity performed in accordance with its budget.

Extent to which the entity performed in accordance with its financial authorities and plan

3.29 Reporting on the extent to which an entity has performed in accordance with its financial authorities and plan includes providing information about:

(a) the extent to which an entity has performed in accordance with the budget, including actual-to-budget variance explanations; and

(b) an entity's compliance with the other dimensions present in the operating and financial frameworks as set out in, or flowing from, the legislation or other governing authority, to which the entity is subject.

3.30 The extent to which an entity has performed in accordance with the budget provides a crucial but incomplete picture of its financial performance in the accounting period. The budget would also be considered when evaluating the entity's performance in relation to its management and stewardship of the public resources entrusted to it.

Context of Public Sector Accountability Reporting

3.31 Public accountability requires transparency in the reporting of both financial and non-financial information. The complex nature of the public sector, its myriad objectives and the overriding objective of public accountability require multifaceted reporting. Ideally, reporting by a public sector entity would comprise multi-dimensional accountability reporting that includes:

(a) financial statements;

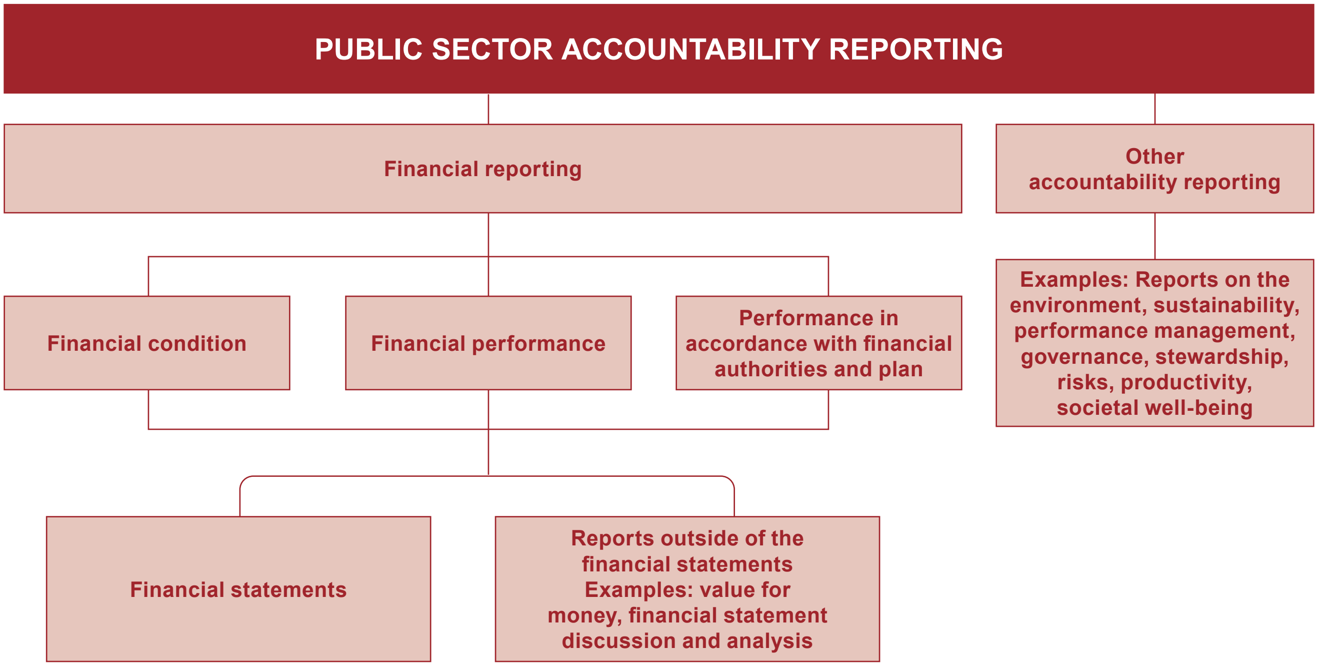
(b) other information about an entity's financial condition, including future-oriented sustainability information;

(c) supplementary financial performance information; and

(d) non-financial performance information.

3.32 The following diagram illustrates the multi-dimensional nature of public sector accountability reporting. As illustrated in Figure 3.1, the three broad accountabilities are demonstrated through various public sector accountability reports, including financial statements and reports outside the financial statements.

Figure 3.1


PUBLIC SECTOR ACCOUNTABILITY REPORTING
Financial reporting
Other accountability reporting
Financial condition
Financial performance
Performance in accordance with financial authorities and plan
Examples: Reports on the environment, sustainability, performance management, governance, stewardship, risks, productivity, societal well-being
Financial statements
Reports outside of the financial statements Examples: value for money, financial statement discussion and analysis

CHAPTER 4: ROLE OF FINANCIAL STATEMENTS

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Introduction

4.01 The first three chapters of the Conceptual Framework set out concepts relating to all public sector financial reporting. The remainder of the Conceptual Framework focuses on financial statements alone, providing the concepts and foundations necessary for financial statement reporting and the establishment of GAAP for financial statements of public sector entities. Therefore, this chapter focuses on the financial statements' role in overall financial reporting. Nevertheless, the concepts and foundations in the chapters that follow may be a useful reference for preparing other financial and accountability reports.

4.02 The concepts in the chapters that follow build on each other and assume the concepts in previous chapters.

The Role of Financial Statements

4.03 *Financial statements are a fundamental component of the financial reporting of a public sector entity.*

4.04 Public sector entities serve the public in many ways. However, financial statements cannot demonstrate or measure and report on all aspects of an entity's, particularly a government's, service capacity or changes in it. Nevertheless, measuring and reporting the part of an entity's service capacity that can be reflected in financial statements, and changes in it, are significant to demonstrating the entity's accountability for the resources and responsibilities entrusted to it for serving the public.

4.05 Chapter 3 stated that reporting on financial condition provides insight into an entity's service capacity and reporting on financial performance provides insight into how an entity's decisions, transactions and other events of the period have affected its service capacity. As with service capacity, however, only certain aspects of an entity's accountability for its financial condition and financial performance, can be demonstrated through the information provided in financial statements. Financial condition and financial performance are broad ideas, the reporting of which is beyond the scope of financial statements. However, financial statements can present:

(a) indicators of **financial position**, an aspect of financial condition; and

(b) periodic financial results, an aspect of financial performance.

4.06 The extent to which the broad accountabilities can be demonstrated through reporting information in financial statements is explained in Chapter 6, "Financial Statement Objectives."

4.07 Reporting on the aspects of accountability relating to:

(a) governance;

(b) non-financial performance; and

(c) certain aspects of sustainability

is also beyond the scope of financial statements.

4.08 More specifically, accountability that can be provided in financial statements is limited in the following ways:

(a) Financial statements largely portray the financial effects of past transactions and other events.

(b) Financial statements only portray economic resources, economic obligations transactions and other events that are measurable in monetary terms.

(c) Financial statements report on certain aspects of an entity's service capacity at the end of the accounting period and the changes in that capacity in the accounting period. Only those aspects of service capacity that arise from past transactions and other events that create and/or change measurable economic resources and economic obligations can be reported in financial statements.

(d) Key non-financial information, such as productivity, the innovativeness of people and programs and the skills and capabilities of an entity's labour force, cannot be measured and reported in financial statements.

(e) Certain qualitative factors, such as deferred maintenance or the quality of infrastructure are not reflected in financial statements.

(f) Financial statements can only report certain aspects of an entity's sustainability.

(g) Financial statement preparation involves professional judgment, recognition restrictions, measurement issues and accounting policy and estimation choices. Financial statements will never precisely portray all of an entity's economic resources, economic obligations, transactions and other events in the accounting period. Comparing entities that use different accounting estimates, techniques or policies may be difficult and complex.

(h) Financial statements do not fully capture important changes in the public sector environment, such as financial crises, natural disasters and health emergencies. Additional context may be required to explain these important changes and their implications for financial position and results.

4.09 Nevertheless, financial statements are a central feature of public sector financial reporting. They provide information useful for many purposes. Financial statements help fulfill an entity's duty to be publicly accountable. They serve as a means by which an entity accounts for its administration of public financial affairs and resources.

4.10 Measuring and reporting those aspects of an entity's service capacity that can be reflected in financial statements, and changes in them, help demonstrate the entity's accountability for the resources and responsibilities entrusted to it for serving the public.

4.11 Financial statements prepared for accountability purposes help satisfy the needs of users who have limited authority, ability or resources to obtain information, and for whom the statements are an important source of information.

4.12 Financial statements are an important anchor to an entity's other financial and accountability reporting when they are audited.

4.13 Because of these roles, the foundations and specific objectives of financial statements are significant components of the Conceptual Framework.

4.14 From a financial statement perspective, public accountability is facilitated through financial measures and indicators that demonstrate how an entity has exercised its stewardship over public resources. Definitions of elements and concepts for recognition and measurement allow measures and indicators to be calculated consistently. Presentation concepts allow the measures to be highlighted and explained for financial statement users.

CHAPTER 5: FINANCIAL STATEMENT FOUNDATIONS[6]

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Introduction

5.01 Financial statements report on and provide a measure of those aspects of an entity's service capacity that arise from past transactions and other events and that create and/or change measurable economic resources and economic obligations. In order for financial statements to provide a measure of these aspects of service capacity, a conceptual framework must set out the foundations for financial statement reporting in the public sector. These foundations pertain to:

(a) defining the entity being reported on;

(b) establishing the basis for associating economic resources and other entities with the reporting entity (i.e., the concept of control);

(c) selecting the unit of measure; and

(d) choosing the basis of accounting.

5.02 These decisions allow:

(a) standard setters to establish consistent concepts and standards for financial statements; and

(b) financial statement preparers to make consistent accounting and financial reporting decisions that help meet the accountability objective of financial reporting.

Identifiable Reporting Entity

5.03 *Foundation 1: Financial statements should be prepared to report on the financial affairs, economic resources and economic obligations of an identifiable reporting entity, which includes its components and organizations.*

6 Chapter 5 builds on Chapter 4 and assumes the concepts in Chapters 1-4.

5.04 A reporting entity is one that chooses, or is required, to prepare financial statements. It is not necessarily a legal entity. It can comprise one or more entities. A reporting entity's boundaries are objectively distinguishable from those of other entities or the environment in which it exists. A clear definition of a reporting entity is fundamental to accounting because it permits the association of economic resources, economic obligations and changes in them with an entity.

5.05 Governments carry out their policies and serve the public through a variety of public sector entities and through funding of other entities. Some public sector entities are components of government, such as departments and ministries, and are integral to the operations of government. Other public sector entities are separate entities with their own management, and which have been delegated financial powers and operational authority, typically but not always through legislation. The whole of government is a public sector entity and is a separate reporting entity; it comprises all of a government's components and organizations.

5.06 Individual government components and government organizations:

(a) are public sector entities;

(b) may be separable reporting entities; and

(c) may themselves have one or more components or organizations.

5.07 Accountability is only served when a complete picture of the reporting entity is provided. If parts of an entity are excluded from that picture, the accountability objective will not be met.

Control

5.08 *Foundation 2: Control is the basis for associating economic resources and other entities with a reporting entity.*

5.09 The concept of control is important in determining which economic resources are associated with an entity for the purposes of reporting the financial position and periodic financial performance of the reporting entity. It is fundamental to the definition of an asset set out in Chapter 8, "Elements of Financial Statements." Chapter 8 states that economic resources having specified characteristics, controlled by the reporting entity, are called "assets". All other elements are defined in terms of assets.[7] So, the concept of control is important for associating economic resources, economic obligations and changes in them with a reporting entity.

5.10 The concept of control is equally important in determining what other entities are associated with an entity for the purposes of reporting the financial position and certain aspects of periodic financial performance of the reporting entity. Control establishes the boundaries of the reporting entity so that it is objectively distinguishable from other entities or the environment in which it exists.

What control is

5.11 Control as a financial statement foundational concept reflects the common understanding of having the existing ability to direct the use of something, such as economic resources or other entities, with the expected benefits and/or risk of loss accruing to the reporting entity.

5.12 The concept of control is a general one, and specific guidance as to how to determine whether control exists in particular circumstances is provided in individual standards.

7 The "asset" definition has conceptual primacy in that all other elements are defined in terms of assets. That is, the definition of "liability" refers to the sacrifice of future economic benefits (embodied in current and future assets) and "revenue" and "expense" are defined in terms of changes in assets and liabilities.

5.13 Public accountability for the use of public resources is important in understanding why entities are associated with each other for reporting purposes and the nature of their relationship. Control is the basis for associating economic resources and other entities with a reporting entity for financial statement purposes.

5.14 A reporting entity can have various relationships with economic resources and/or other entities. These relationships exist along a continuum. At one end of the relationship continuum, control will clearly exist; at the other end, control will clearly not exist. In between, different relationships may exist, and professional judgment is applied in conjunction with consideration of any relevant standards in determining whether control exists.

5.15 The concept of control includes shared control as well as unilateral control.

5.16 Control is a more encompassing concept than ownership. Control can exist in the absence of ownership. For example, a reporting entity may not own an economic resource, but it can control the resource if it can direct the use of the resource and be exposed to the related benefits and/or risks. Similarly, a reporting entity may not own another organization, but it can direct the use of that organization's economic resources and be exposed to the related benefits and/or risks through its existing ability to control the other organization.

5.17 A controlled entity may be subject to restrictions that limit its ability to do certain things. Restrictions on an entity's ability to act or do certain things are unlikely to negate the existence of a control relationship with the reporting entity. However, restrictions can impact the relationship between a controlling and controlled entity and so must be considered in determining whether control exists.

5.18 There may be restrictions relating to a controlled resource. These restrictions may create obligations for the controlling reporting entity. Such obligations do not negate the existence of control over an economic resource.

What control is not

5.19 Given the unique characteristics of governments and their ability to affect and regulate aspects of the economy or society in general under the constitutional or delegated powers or rights vested in them, care must be taken when applying the concept of control.

5.20 A reporting entity's power or right to influence an entity does not, in and of itself, constitute control. Influence means affecting but not necessarily being able to direct the use of something.

(a) A reporting entity's power or right to regulate economic resources or other entities, does not, in and of itself, constitute control.

(b) Another entity's financial dependence on the reporting entity does not, in and of itself, constitute control by the reporting entity. Nevertheless, an entity receiving public funding is accountable to the public.

Powers, rights and other abilities of some public sector entities and the connection to the concept of control

5.21 Chapter 2, "Characteristics of Public Sector Entities," identifies the existence of powers, rights and responsibilities (constitutional, devolved, delegated or inherent) as a characteristic of some public sector entities.

5.22 The power or right (constitutional, devolved, delegated or inherent) to take control of an entity away from others may currently exist. However, until such a power or right is invoked, control of that other entity by the reporting entity would not be considered to exist for financial statement purposes. Control over another entity would only exist as a result of invoking that power or right, such as through forcing amalgamation of the other entity with the reporting entity or enacting legislation, regulation or bylaws to take control of another entity. Similarly, an existing power or right to nationalize private sector entities does not give a reporting entity control of such entities until such power or right is invoked. Once a power or right has been invoked and control of another entity is thus obtained by the entity invoking the power or right, the controlling entity retains the option to exercise its day-to-day control over the other entity or not.

5.23 Simply having a power, a right or other ability to raise economic resources in the future is not control of those resources for the purposes of this Conceptual Framework. A constitutional, legislative or other legal ability to raise economic resources in the future does not convey present control over resources. For example:

(a) An entity may have a constitutional or legislative power or right to levy taxes, fees or consumption charges. Control over a resource would only exist if the entity invokes those powers or rights, such as, by levying a tax on occurrence of a taxable event or levying a fee on occurrence of usage or on an activity. Only then would the power or right give rise to an enforceable right to receive resources from others.

(b) An existing power or right to expropriate resources does not give an entity control of such resources until such power or right is invoked.

Unit of Measure

5.24 *Foundation 3: Financial statements are prepared on the basis that an entity's financial position, and changes in it, are measured in financial terms. No adjustments are made based on the changes in the general purchasing power of the Canadian dollar.*

5.25 Financial statement information can be expressed in terms of:

(a) the Canadian dollar; or

(b) the Canadian dollar adjusted to take into account changes in purchasing power.

5.26 The Canadian dollar is a variable measuring unit in the sense that its relation to things measured — its value or general purchasing power — changes because of inflation or deflation. When money is adjusted for changes in purchasing power, financial position and changes in financial position are expressed using a stable, rather than a variable, unit. Measurements using money adjusted for changes in general purchasing power may be appropriate in jurisdictions where inflation or deflation is a significant issue.

5.27 The relative level of inflation in Canada supports a pragmatic choice to use a unit of measure that does not take into account changes in purchasing power.

Basis of Accounting

5.28 *Foundation 4: Financial statements should recognize economic resources, economic obligations, transactions and other events in accordance with the accrual basis of accounting.*

5.29 The basis of accounting determines when economic resources, economic obligations, transactions and other events are recognized. At either end of the accounting spectrum are two bases: accrual accounting and cash accounting, with variations in between. Which basis is used is important because each provides parameters for the consistent timing of and approach to recognition of economic resources, economic obligations, transactions and other events.

5.30 Accrual accounting recognizes the effect of transactions and other events in the period in which the transactions and other events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes:

(a) a resource until the future service potential or future net cash flows underlying the resource are partly or wholly used, lost or sold; and

(b) an obligation until the term(s) or condition(s) underlying it are partly or wholly satisfied.

5.31 Accrual accounting provides information about economic resources and economic obligations, as well as changes in them that cannot be obtained by accounting only for cash receipts and payments. Accrual accounting requires anticipating the future and making judgments about transactions and other events that are uncertain or unresolved at the end of the accounting period.

5.32 In contrast, cash accounting recognizes the financial effects of transactions and other events only when cash has been received or paid. Cash information on its own provides insufficient information for accountability purposes and any related decision making. Economic resources, economic obligations, transactions and other events recognized on a cash basis would be inadequate for assessing or identifying all of the economic resources that an entity controls, the obligations it must meet and the increases or decreases in those resources and obligations. The public expects public sector entities to be accountable for the effects of their decisions on all their economic resources and economic obligations.

CHAPTER 6: FINANCIAL STATEMENT OBJECTIVES[8]

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Paragraph

Introduction

6.01 Financial statement objectives need to reflect and be consistent with the overall objective of financial accountability and the three broad financial reporting accountabilities identified in Chapter 3, being the reporting of the:

(a) financial condition of the entity;

(b) financial performance of the entity; and

(c) extent to which the entity performed in accordance with its financial authorities and plan. The plan is often in the form of a budget.[9]

6.02 Financial statement objectives establish the information to be included in financial statements given the characteristics of public sector entities and limitations on the nature and extent of information financial statements can present. These objectives pertain to:

(a) determining the scope of financial statements (Objective 1);

(b) reporting financial position (Objective 2);

(c) reporting changes in financial position (Objective 3);

(d) comparing the actual financial performance to that projected in the budget (Objective 4);

(e) disclosing non-compliance with financial authorities (Objective 5); and

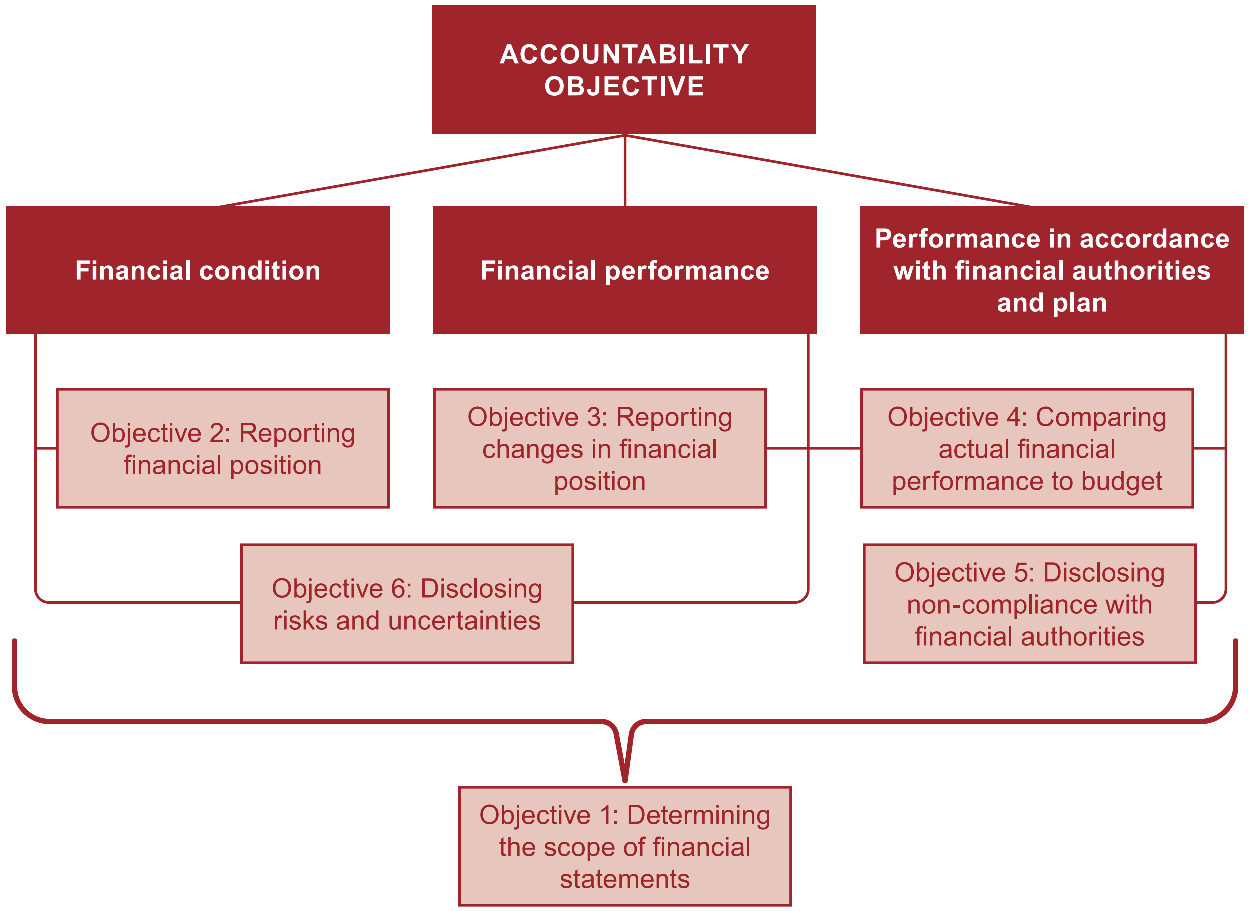
(f) disclosing risks and uncertainties (Objective 6).

6.03 Figure 6.1 shows the relationships among the overall financial reporting objective (providing information for accountability purposes), the three broad financial reporting accountabilities and the individual financial statement objectives.

8 Chapter 6 builds on Chapter 5 and assumes the concepts in Chapters 1-5.

9 From this point forward, the “plan” is referred to as the “budget”.

Figure 6.1



6.04 Objective 1 deals with determining the scope of financial statements. It underlies all the other financial statement objectives because it establishes the reporting entity's boundaries in terms of the entities that are to be included in its financial statements. To meet the accountability objective, the financial statements of the entity must include all of its components and controlled organizations.

6.05 Reporting financial position (Objective 2) can only demonstrate certain aspects of an entity's financial condition. Financial position provides information that is useful for evaluating the stewardship of public resources and decisions related to how the entity is financing its activities. It also provides information about the entity's flexibility and sustainability.

6.06 Reporting changes in financial position (Objective 3) can demonstrate only certain aspects of an entity's financial performance. Changes in financial position include the sources of resources during the period, the cost of service provision, cash flow and other aspects of financial performance. This information can be used as the basis for assessing vulnerability and determining the impact of raising resources and the cost of service delivery. This information also aids in making assessments of the sustainability of the future provision of public services.

6.07 Comparing actual financial performance to the budget (Objective 4) and disclosing information about non-compliance with financial authorities (Objective 5) demonstrates how the entity performed in accordance with its budget and financial authorities. Comparing actual financial results to the budget also provides information about the entity's financial performance, which is useful in assessing accountability. Financial authorities are financial control mechanisms relating to the expected raising, use and management of public resources. Demonstrating compliance with these also provides important accountability to users.

6.08 Disclosing risks and uncertainties (Objective 6) provides information useful for:

(a) evaluating the management of risks and uncertainties; and

(b) preparing assessments about the potential effects of risks and uncertainties on the entity's financial position, changes in financial position and sustainability.

Determining the Scope of Financial Statements

6.09 *Objective 1: Financial statements should account for the full nature and extent of the financial affairs of an entity. They should also account for the economic resources that an entity controls and the economic obligations it must settle, including those of its components and controlled organizations.*

6.10 To help users understand and assess the financial affairs and economic resources entrusted to an entity, financial statements would account for the full nature and extent of the financial affairs, economic resources and economic obligations for which it is accountable including those of its components and controlled organizations.[10]

6.11 Financial statements for a whole of government reporting entity account for not only the government components through which the government directly performs its executive function, but also the organizations that the government controls. When the reporting entity is a government component or government organization, the same objective applies.

6.12 The financial statements of a reporting entity are not intended to replace the separate financial statements of its organizations when such organizations are separate reporting entities and issue financial statements. Those separate financial statements constitute important accountability reports by their respective managements. However, the financial statements of individual organizations of a reporting entity alone do not provide the users with an understandable overview of the full nature and extent of the financial affairs, economic resources and economic obligations for which the reporting entity is accountable. Only the consolidated financial statements of a reporting entity can provide the overview necessary for demonstrating accountability in this broad sense.

Reporting Financial Position

6.13 *Objective 2: Financial statements should present information to describe an entity's financial position at the end of the accounting period.*

6.14 Financial position information is used to gain an understanding of, and assess the state of, an entity's finances at a point in time. Such information helps users assess the entity's financial sustainability, its service capacity and financial resources available for future use or required as a result of past transactions and other events.

6.15 To make such assessments, users require information about the total economic resources available to serve the public and the total claims on those resources (i.e., economic obligations) at the financial statement date. Users also require information on:

10 This objective combines the financial statement foundations of control and an identifiable reporting entity set out in Chapter 5 to establish the boundaries of an economic reporting entity for financial statement reporting purposes.

(a) the underlying nature of the entity's economic resources, and the relative degree of flexibility in their application; and

(b) the underlying nature of the entity's economic obligations, including how they would be settled.

6.16 Knowing the nature of economic resources highlights for users a fundamental characteristic of public sector entities noted in Chapter 2, paragraphs 2.61-2.64, "Nature and use of public resources." Knowing the nature of the economic obligations helps users assess the past choices the entity has made in relation to its financing and stewardship decisions as well as future cash flow requirements. Accountability for financial position is strengthened when the financial statements separately report the significant categories of **economic resources** and **economic obligations**.

6.17 There are two categories of economic resources: financial and non-financial. The key distinction between an entity's financial and non-financial resources is how they can be applied in the future. **Financial resources** can be used to discharge financial obligations, invest or provide services, while **non-financial resources** can normally be used only to provide services. Understanding the extent of an entity's financial resources helps users assess its flexibility and ability to discharge existing financial obligations and provide services. Understanding the extent of the entity's non-financial resources helps users assess the entity's sustainability. Reporting the amount of non-financial resources can inform:

(a) why financial resources and financial or non-financial obligations have changed;

(b) the cost of providing future services:

(c) the stewardship of these resources, in terms of their use and/or the need for future refurbishment, replacement or replenishment.

6.18 There are two categories of economic obligations: financial and non-financial. The key distinction between an entity's financial and non-financial obligations is how they are settled. **Financial obligations** are settled through the use of financial resources; non-financial obligations are not. **Non-financial obligations** are settled through the use of non-financial resources, or through providing access rights to non-financial resources of the entity. Non-financial obligations do not represent future financial resource requirements. Understanding the extent of an entity's financial obligations helps users assess the entity's debt management practices and its need for future financial resources. Understanding the extent of the entity's non-financial obligations helps users assess the entity's sustainability and the extent to which its non-financial resources have specific conditions on the use of the resources, or on external access to the resources.

6.19 Financial position provides information about the service capacity arising from past transactions and other events that an entity:

(a) has available at the end of the accounting period to meet its objectives in the future; or

(b) will need to obtain in the future to pay for past activities.[11]

6.20 Accountability for financial position is further strengthened when the financial statements separately report the significant identifiable sources of an entity's financial position. This information can help users understand the nature of an entity's financial position.

11 This applies only to the aspects of an entity's service capacity that can be reflected in financial statements.

6.21 Understanding how the entity's past financial activities and commitments affect its ability to provide future services is essential accountability and affordability information. Reporting on an entity's net financial resources or net financial obligations status provides this important information, which also helps in assessing the entity's sustainability. A net financial resources status means there are financial resources available to provide services in the future and meet future financial obligations. A net financial obligations status means there is a need for future financial resources to settle past financial obligations; it represents a "lien" on future resources and affects an entity's ability to finance its activities, provide services and meet its obligations in the future.

Reporting Changes in Financial Position

6.22 *Objective 3: Financial statements should present information to describe the changes in the entity's financial position in the accounting period. This information describes:*

(a) the sources, allocation and consumption of the entity's economic resources, that explain the entity's financial performance;

(b) how the entity financed its activities; and

(c) how it met its cash requirements in the accounting period.

6.23 Users require information to understand why the financial position changed as a result of its activities in the period. This change represents the entity's financial performance for the period that can be measured and reflected in the financial statements. It is broken down, presented and explained in financial statements from more than one perspective (e.g., periodic surplus or deficit, cash flow).

6.24 To understand changes in financial position, users require financial statements to provide a meaningful summary of the sources, allocation and use of the economic resources an entity administers in carrying out its activities in the period. Such information helps users understand the nature and extent of the entity's resource-raising activities and the purposes to which resources were used and applied.

6.25 To understand one fundamental aspect of the change in financial position, users require information about whether the operating activities during the period increased or decreased the entity's net economic resources or net economic obligations from what existed at the beginning of the period (i.e., resulted in a surplus or deficit). However, not all changes in an entity's financial position are necessarily included in surplus or deficit. Certain circumstances, as identified and approved by PSAB, may result in different accountability explanations for some aspects of the change in financial position. For example, one part of financial performance requiring separate accountability, and therefore reporting outside of surplus or deficit, consists of those changes that relate to certain unrealized remeasurements. Such remeasurements are unrealized, relate to changes in economic conditions not directly controlled by the entity, and are less likely to be replicable. This separation supports improved reporting on accountability and stewardship of resources. The Board may require a part of financial performance to be presented outside of surplus or deficit if such presentation better contributes to meeting the accountability objective.

6.26 To understand another key aspect of changes in financial position, users also require information related to the sources, allocation and use of cash resources in the period. Information about cash flows is important because it shows whether the activities of the period are providing cash resources or whether cash requirements have been met by incurring debt or other economic obligations. Useful information explains the entity's cash requirements during the period and how these requirements were met. Such information allows users to assess how the different activities affect the entity's cash position.

6.27 Reporting on the various aspects of changes in financial position allows for a more understandable explanation of how the transactions and other events of the accounting period affected the overall financial position of the entity.

Comparing Actual Financial Performance to That Budgeted

6.28 *Objective 4: Financial statements should provide a comparison of the actual financial performance, as reported in financial statements, to that budgeted. Accountability regarding actual financial performance in comparison with the budget is best served when the approved budget uses the same basis of accounting, follows the same accounting principles, is for the same scope of activities and uses the same classifications as the financial statements.*

6.29 Comparing actual financial performance against the budget is a fundamental component of financial accountability in the public sector. The actual-to-budget comparison in the financial statements closes the accountability cycle. It is crucial for users when assessing accountability to have information to be able to compare what was budgeted to what actually happened.

6.30 In certain circumstances, it may not be possible for entities to set a meaningful budget for some aspects of financial performance reported in financial statements, such as some unrealized remeasurements arising in the period. Nevertheless, an actual-to-budget comparison needs to be provided in relation to the sources and uses of economic resources that make up the surplus or deficit for the period.

6.31 Actual financial performance needs to be compared with the originally approved budget of the entity. A comparison with a budget that has been updated to take into account transactions and other events occurring during the period significantly reduces the accountability value of the comparison. Such comparison may reduce differences and limit explanations of changes occurring throughout the period. However, there may be rare circumstances in which an amended approved budget may be more useful for accountability purposes.[12]

Disclosing Non-Compliance with Financial Authorities

6.32 *Objective 5: Financial statements should provide information that shows whether an entity's financial affairs, economic resources and economic obligations were administered in accordance with the requirements and limits established by the appropriate financial authorities. Specifically, financial statements should provide information that highlights when an entity's application or use of economic resources, raising of economic resources, borrowing and investing activities were not carried out within the limits authorized by the financial authorities. Financial statements should provide information to allow users to assess the significance and financial implications of non-compliance.*

6.33 Users look to financial statement information as a principal means of determining whether the public resources entrusted to a public sector entity were administered in accordance with its financial authorities. Such authorities are unique to the public sector and reporting non-compliance with such authorities enhances the transparency and accountability provided by financial statements.[13]

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12 Such rare circumstances are identified at the standards level in FINANCIAL STATEMENT PRESENTATION, Section PS 1202. This standard is being exposed for comment in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

13 Disclosing non-compliance with financial authorities is a separate requirement from the need to consider relevant legislation in determining the presentation of items, transactions and other events of an entity. For example, environmental legislation may create economic obligations that require recognition or disclosure.

6.34 Financial authority, established through legislation or other means, may give direct authority to an entity to provide services at specified costs, to spend, to raise resources, to invest and to borrow; or it may delegate powers that give similar authority to its controlled organizations. While it is the sole prerogative of the government to propose budgets for spending and financing of its activities, all costs, spending, resource raising, investing and borrowing must be sanctioned through the financial authorities established. Similar financial authorities apply to the components and controlled organizations that make up government.

6.35 Providing information on non-compliance with financial authorities is important. This information allows users to assess the significance and financial implications of non-compliance.

Disclosing Risks and Uncertainties

6.36 *Objective 6: Financial statements should provide information to describe the risks and uncertainties that could affect the entity's financial position or changes in financial position. Such information is useful for evaluating the nature and extent of these risks and uncertainties and the entity's management of them.*

6.37 Risks and uncertainties are often externally driven and outside the entity's control. Therefore, users require information to assess an entity's exposure to risks and uncertainties and how its financial position and changes in financial position might be affected. To make this assessment, users require disclosures about:

(a) risks and uncertainties that could affect what is reported in financial statements; and

(b) the management of these risks and uncertainties.

6.38 Individual standards provide the requirements for the specific risks and uncertainties to be disclosed. The disclosures of these risks and uncertainties help users:

(a) evaluate the nature and extent of risks and uncertainties to which an entity is exposed at the financial statement date;

(b) analyze the entity's sensitivity to its risk exposures and uncertainties;

(c) assess the management of these risks and uncertainties; and

(d) assess the entity's ability to meet its objectives in the short and long term.

6.39 Disclosing information regarding the risks and uncertainties an entity is exposed to at the reporting date is essential to demonstrating accountability to the users. Nevertheless, some risk and uncertainty disclosures are more properly included in financial reporting other than financial statements, such as sustainability reporting.

6.40 Financial statements would provide detailed information about risks and uncertainties in a way that is clear and sufficient, not exhaustive or overwhelming. The information would focus on risks and uncertainties significant to users' assessments of financial position and changes in financial position.

Meeting the Objectives

6.41 In addition to the financial statement foundations set out in Chapter 5, it is necessary to establish further concepts to meet the financial statement reporting objectives, such as the:

(a) definitions of the elements reported in financial statements;

(b) criteria for determining when elements of financial statements are recognized;

(c) attributes appropriate for measuring the elements; and

(d) presentation parameters for making consistent financial statement display decisions.

CHAPTER 7: FINANCIAL STATEMENT INFORMATION: QUALITATIVE CHARACTERISTICS AND RELATED CONSIDERATIONS[14]

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Introduction

7.01 Information reported in financial statements is based on the financial statement objectives, as identified in Chapter 6, "Financial Statement Objectives," and meets certain qualitative characteristics. These objectives and characteristics affect the nature and extent of the information reported in financial statements and influence the location, structure and organization of the information communicated. Generally, the aim is to achieve an appropriate balance among the characteristics to meet the objectives of financial statements. There are certain considerations to take into account in achieving this balance.

7.02 The qualitative characteristics of information included in an entity's financial statements are the attributes that make the information useful to users for accountability purposes.

14 Chapter 7 builds on Chapter 6 and assumes the concepts in Chapters 1-6.

Qualitative Characteristics

7.03 *The qualitative characteristics of the information reported in financial statements are:*

(a) relevance;

(b) faithful representation;

(c) verifiability;

(d) comparability;

(e) understandability; and

(f) timeliness.

Relevance

7.04 Information in financial statements is relevant if it can inform users' evaluation of an entity's accountability for its governance, performance, stewardship and sustainability by:

(a) confirming or revising their past evaluations (confirmatory value); and/or

(b) helping them evaluate the potential effects of and form predictions about the future outcomes of past or present transactions and other events (predictive value).

Confirmatory and predictive value

7.05 Information that confirms or revises previous results, evaluations or predictions has confirmatory value. Information that confirms past expectations can reinforce expectations. If the information changes expectations, it changes the perceived probabilities of the range of possible outcomes or their amounts. Therefore, the information changes the degree of confidence in past expectations and is capable of making a difference in the evaluation of the entity's governance, performance, stewardship and sustainability.

7.06 Information has predictive value if, for example, users of financial statements use it or could use it to forecast an entity's future financial results and cash flows and assess its sustainability. Information need not be forward-looking (i.e., be a prediction or forecast) to have predictive value. Users can use information about the past to help form their expectations about the future.

7.07 The confirmatory and predictive roles of financial statement information interrelate. Information that has predictive value usually also has confirmatory value.

Faithful representation

7.08 To be useful for accountability purposes, financial statement information must faithfully represent the economic resources, economic obligations, transactions and other events that it purports to represent.

7.09 The aspects of faithful representation are:

(a) substance over form;

(b) completeness;

(c) neutrality; and

(d) free from material error.

7.10 Inaccurate, inappropriate or incomplete information will not faithfully represent the substance of an economic resource, economic obligation, transaction or other event. Such information would inhibit rather than enhance understanding, adversely affecting the accountability provided by the financial statements to users.

7.11 Consideration of uncertainty is important for accrual-based financial statements to provide a faithful representation of economic resources, economic obligations, transactions and other events. Economic activities occur in an environment characterized by uncertainty. Uncertainty is considered when establishing the amount at which the item is recognized in financial statements. Financial statements often include estimates involving assumptions and the application of professional judgment. An estimate based on appropriate inputs would faithfully represent an economic resource, economic obligation, transaction or other event. Each input would reflect the best available information. It may sometimes be necessary to disclose explicitly the degree of uncertainty to faithfully represent an economic resource, economic obligation, transaction or other event of an entity.

Substance over form

7.12 To get at the substance of an item is to understand its meaning or essence. In financial statements, the substance of an item is its economic reality, which may or may not be the same as its legal form.

7.13 Differentiating the substance from the legal form of a transaction or other event entails using professional judgment based on all available evidence.

7.14 The need to derive the substance of a transaction or other event may arise because the transaction or other event is complex, or the legal form does not represent its substance. This may be because the transaction has:

(a) legal complexities;

(b) many rights and obligations embedded in the transaction or other event; or

(c) many parties to the transaction.

Completeness

7.15 Information is complete when all the data necessary to achieve a faithful representation is present. Completeness means providing sufficient information about economic resources, economic obligations, transactions or other events of such size, nature or incidence that their inclusion is necessary for users to understand the entity's financial position and periodic financial performance and to hold it accountable.

7.16 A complete depiction includes a numeric representation as well as all the necessary descriptions and explanations of the economic resource, economic obligation, transaction or other event.

Neutrality

7.17 Information is neutral when it is bias-free.

7.18 Bias in measurement occurs when the financial statement elements are consistently overstated or understated. In the selection of accounting policies, bias may occur when the selection is made with the interests of particular users, or with particular objectives, in mind. Financial statements that do not include everything necessary for the faithful representation of transactions and other events affecting the entity would be incomplete and, therefore, potentially biased.

7.19 Accounting information cannot avoid affecting behaviour. However, to be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates to influence behaviour in a particular direction.

Free from material error

7.20 Faithful representation does not mean accurate in all respects. Free from material error means:

(a) there are no errors or omissions that are individually or collectively material in the representation of economic resources, economic obligations, transactions or other events; and

(b) the process used to produce the reported information has been selected and applied with no material errors.

7.21 In some cases, accuracy is easily achieved (e.g., cash paid to acquire an economic resource). In other cases, such as estimates, evaluating the degree of accuracy of a reported amount may be less straightforward. A representation of that estimate can be faithful if:

(a) the amount is described clearly and accurately as being an estimate;

(b) the nature and limitations of the estimating process are explained; and

(c) no errors have been made in selecting and applying an appropriate process for developing the estimate.

Verifiability

7.22 Verifiability is the quality of information that helps assure users that information in financial statements faithfully represents the economic resources, economic obligations, transactions and other events that it purports to represent. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

7.23 Generally, verifiability means that a representation can be examined or observed so that knowledgeable and independent individuals, using the same methods, would get essentially the same result. In relation to financial statement information, verifiability can mean that either the representation of a transaction or other event may itself be verifiable, or that the method used to establish the representation may be verifiable.

Comparability

7.24 Comparability is a characteristic of the relationship between two or more pieces of information, such as that between:

(a) an entity's actual financial performance with that budgeted;

(b) the same entity's financial statements for different periods; or

(c) different entities' financial statements.

Comparability enables users to identify similarities in and differences between the information provided by multiple sets of financial information.

7.25 The comparison of actual financial statement performance with that budgeted is a fundamental component of the financial accountability cycle in the public sector. Such a comparison is meaningful when the budget is presented using the same:

(a) basis of accounting;

(b) accounting principles;

(c) scope of activities; and

(d) classifications

as the financial statements.

7.26 Consistency in application of accounting policies is important:

(a) when comparing the financial statements of the same entity over periods or at different points in time; or

(b) when comparing actual-to-budget financial performance of the same entity.

Consistency helps prevent misconceptions that might result from the application of different accounting policies. When a change in accounting policy is deemed appropriate, disclosure of the effects of the change is necessary to maintain comparability.

7.27 Application of uniform accounting standards is important when comparing the financial statements of different entities.

Understandability

7.28 Accountability is best achieved when the financial information provided can be understood. The information presented might be relevant to the entity demonstrating its governance, performance, stewardship or sustainability, or relevant to a user in making a decision. However, unless information is understandable, it does not serve its purpose.

7.29 Classifying, characterizing and presenting financial information clearly, concisely and simply enhances understandability. Contextual and explanatory information is also helpful. Clear and precise facts alone may not be sufficient for a user to understand the information. Excessive detail, vague or overly technical descriptions and complex presentation formats may cause confusion and misinterpretation.

7.30 Efforts are to be made to present financial statement information in an understandable manner. Accounting policy and presentation choices must strive to reduce complexity wherever possible, while ensuring that the economic substance of transactions and other events is faithfully represented. Reducing complexity to improve understandability does not mean excluding complex transactions and other events from the financial statements. Similarly, the financial statements cannot simplify complex transactions to such an extent that their depiction misrepresents their substance or is otherwise misleading.

7.31 Understandability enables users who have a reasonable understanding of economic activities and accounting, together with a willingness to study the financial information with reasonable diligence to comprehend the meaning of the financial information presented in financial statements. However, the nature of financial statement information is such that there are limits to making it understandable to all users. In certain circumstances, users may need assistance to understand information presented in financial statements.

Timeliness

7.32 Timeliness means having information available to users before it loses its capacity to affect the evaluation of the entity's governance, performance, stewardship and sustainability, or to inform decisions. The less timely the information, the less useful it is for holding the entity and its management to account and for making decisions.

7.33 However, some information may continue to be useful long after the end of a reporting period.

Related Considerations

7.34 *Financial statement information aims to achieve an appropriate balance among the qualitative characteristics while meeting the accountability objective. The relative importance of the characteristics in different cases is a matter of professional judgment. The considerations to take into account in striving to achieve this balance among the characteristics include:*

(a) benefit versus cost;

(b) materiality; and

(c) prudence.

Benefit versus cost

7.35 Financial information is an economic good: it comes at a cost and provides benefits, primarily to those to whom an entity is accountable. While the benefit expected to arise from providing information in financial statements is to justify the cost of its provision and use, assessing whether the benefits of providing specific information justify the related costs is often a matter of professional judgment. This is because the benefits and costs are often not easily identified and/or quantified, and they accrue to different parties.

7.36 Users receive benefits from the information provided by financial statements: increased entity accountability reporting and transparency and the ability to make more-informed decisions.

7.37 Preparers also benefit from the information provided by the entity's financial statements:

(a) better information for decision making by management;

(b) improved discussions with users;

(c) demonstrated accountability for resources entrusted to the entity; and

(d) financial statement numbers that anchor other performance and accountability measures.

7.38 The costs to preparers of providing financial statement information include collecting, processing, presenting, verifying and disseminating it.

7.39 Users incur the costs of analyzing and interpreting the information. They absorb the costs associated with the risk of making decisions using incomplete information and of obtaining necessary information from other sources. Associated with this, and particularly difficult to quantify, are the costs associated with information sacrificed on the basis of cost that met one or more of the qualitative characteristics.

Materiality

7.40 Information is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make based on the financial statements.

7.41 Materiality is a matter of professional judgment in the particular circumstances. It is judged in relation to the reasonable prospect of its significance in making assessments and judgments by users of financial statements.

7.42 Materiality would be considered from qualitative and quantitative perspectives. From a quantitative perspective, it provides a threshold or cut-off point for determining what information to recognize and report or disclose. From a qualitative perspective, an item may be considered material in substance even if the monetary value is not considered significant.

7.43 Materiality is used to assess the potential effects of omitting, misstating, obscuring or not disclosing separately information that otherwise meets the qualitative characteristics. Materiality depends on the size and/or nature of the omission or misstatement judged in relation to the surrounding circumstances.

7.44 Materiality is an entity-specific consideration based on the nature or magnitude, or both, of the item, transaction or other event to which the information relates in the context of an individual entity's financial statements. An evaluation of whether an item, transaction or other event is material or immaterial for accountability purposes would consider all quantitative and qualitative information relevant to the decision. An item, transaction or other event may not be individually material, but when combined with other items, transactions or other events of similar nature and substance, the item, transaction or other event may collectively be material for accountability purposes.

Prudence

7.45 Prudence is the exercise of caution when making judgments under conditions of uncertainty. Exercising prudence means not understating or overstating the financial statement elements. Any deliberate understatement or overstatement can lead to invalid assessments of accountability and suboptimal decisions.

7.46 Prudence is inherent in the application of professional judgment in determining the nature and extent of information to be provided in financial statements to meet the overarching accountability objective and the objectives of financial statements.

CHAPTER 8: ELEMENTS OF FINANCIAL STATEMENTS[15]

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Introduction

8.01 Financial statement users are interested in the items, transactions and other events that give rise to an entity's financial position and periodic financial performance.[16] Those items, transactions and other events are or create economic phenomena.

8.02 For financial statement purposes, an entity's **economic phenomena** are its economic resources, economic obligations and the effects of transactions and other events that change those resources and obligations.

8.03 Financial statements represent the results of numerous transactions and other events that necessarily involve a high degree of summarization and classification. Aggregating information into common classifications that characterize their nature enhances users' ability to understand large numbers of items, transactions and other events.

8.04 The purpose of identifying elements of financial statements is to provide a common and useful starting point for classifying items, transactions and other events in a way that enhances users' understanding of the detailed information contained in an entity's financial reporting system.

8.05 Elements of financial statements are important because they represent the first-level grouping of similar items, transactions and other events for summarizing and classifying. These groupings are not only based on a shared nature or common distinguishable characteristics, they also assist with meeting the financial statement objectives. The elements provide information needed for measuring financial position and periodic financial performance.

8.06 Element definitions are derived from the service capacity concept in Chapter 4 and the foundations of financial statements in Chapter 5, such as control, an identifiable reporting entity and the accrual basis of accounting.

(a) Service capacity is an entity's capacity to serve the public. Those aspects of service capacity that arise from past transactions and other events that create and/or change measurable economic resources and economic obligations are reported in financial statements.

15 Chapter 8 builds on Chapter 7 and assumes the concepts in Chapters 1-7.

16 Items exist at the reporting date, while transactions and other events occur in the accounting period.

(b) Financial statements report the financial position and periodic financial performance of an identifiable reporting entity, including its components and organizations. As established in Chapter 6, "Financial Statement Objectives," the boundary of a reporting entity is defined by what it controls.

(c) Under the accrual basis of accounting, element definitions must encompass all the economic resources that an entity controls, the economic obligations it must meet and the increases or decreases in those resources and obligations, regardless of when cash is exchanged.

8.07 The two types of elements are:

(a) those that describe economic resources and economic obligations of an entity at a point in time; and

(b) those that describe changes in economic resources and economic obligations over a period of time.

For financial statements, the elements are assets, liabilities, revenues and expenses.

8.08 The elements that describe an entity's economic resources and economic obligations at a point in time are assets and liabilities. The elements that make up the changes in economic resources or economic obligations in an accounting period are revenues and expenses. Together, revenues and expenses explain the change in the net assets (net economic resources) or net liabilities (net economic obligations) position of an entity in the accounting period.[17] The definitions of revenues and expenses are derived from the definitions of an asset and a liability. This approach instills rigour and discipline, promotes consistency and improves comparability in the determination of periodic financial performance. Although revenues and expenses are defined in terms of changes in assets and liabilities, for accountability purposes, revenues and expenses are just as important as assets and liabilities.

Assets

Definition

8.09 An **asset** is a present economic resource controlled by an entity as a result of past events[18] and from which future economic benefit is expected to be obtained.

8.10 To satisfy the definition of an asset, the present economic resource that an entity controls must arise as a result of a past transaction or other event. However, the complexity of public sector programs and activities means that several transactions and/or other events, rather than just one, may also give rise to an asset.

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17 Not all revenues and expenses of a period would be recognized in periodic surplus or deficit. Chapter 6 explains, in paragraph 6.25:

> However, not all changes in an entity's financial position are necessarily included in surplus or deficit. Certain circumstances, as identified and approved by PSAB, may result in different accountability explanations for some aspects of the change in financial position. For example, one part of financial performance requiring separate accountability, and therefore reporting outside of surplus or deficit, consists of those changes that relate to certain unrealized remeasurements. Such remeasurements are unrealized, relate to changes in economic conditions not directly controlled by the entity, and are less likely to be replicable. This separation supports improved reporting on accountability and stewardship of resources. The Board may require a part of financial performance to be presented outside of surplus or deficit if such presentation better contributes to meeting the accountability objective.

18 "Events" include "transactions". "Transactions" are a subset of events.

Characteristics

8.11 Assets have three essential characteristics:

(a) the entity controls the economic resource and access to the future economic benefit(s);

(b) the transaction(s) or other event(s) giving rise to the entity's control has already occurred; and

(c) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows or to reduce future cash outflows.

8.12 An economic resource embodies value because it enables an entity to meet its objectives. Without an economic resource, future economic benefits cannot be obtained.

8.13 Economic resources are not assets unless they have all the essential characteristics of assets. For example, an economic resource does not qualify as an asset of an entity if it involves:

(a) future economic benefit that the entity cannot access;

(b) future economic benefit but the transaction(s) or other event(s) that gives the entity control of the economic benefit has not yet occurred; or

(c) no future economic benefit.

8.14 Physical form is not a necessary condition of an economic resource.

8.15 An economic resource is not precluded from being an asset merely because it is measured using an estimate.

Liabilities

Definition

8.16 A **liability** is a present economic obligation of an entity to others as a result of past events,[19] the settlement of which is expected to result in a future sacrifice of economic benefit.

8.17 A liability could be to one or more persons or one or more entities separate from the entity that is reporting.

8.18 To satisfy the definition of a liability, a present economic obligation must arise as a result of a past transaction or other event. However, the complexity of public sector programs and activities means that several transactions and/or other events, rather than just one, may also give rise to a liability.

Characteristics

8.19 Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others, leaving an entity little or no discretion to avoid settlement of the obligation;

(b) the duty or responsibility to others entails settlement by future transfer or use of economic resources (such as the provision of goods or services or other form of economic settlement) at a specified or determinable date, on occurrence of a specified transaction or other event, or on demand; and

(c) the transaction(s) or other event(s) obligating the entity has already occurred.

19 "Events" include "transactions". "Transactions" are a subset of events.

8.20 An economic obligation is a duty or responsibility that an entity has no practical ability to avoid. It would be settled through the future sacrifice of economic benefits. Sacrificing economic benefits involves a future transfer or use of economic resources. A performance obligation is a type of economic obligation.[20]

8.21 Economic obligations are not liabilities unless they have all three characteristics of liabilities. For example, an economic obligation does not qualify as a liability of an entity if:

(a) the entity does not have the duty or responsibility to settle the obligation;

(b) the economic obligation will not result in a future sacrifice of economic benefit; or

(c) the transaction(s) or other event(s) obligating the entity has not yet occurred.

8.22 An economic obligation is not precluded from being a liability merely because it is measured using an estimate.

Revenues and Expenses

8.23 **Revenue**, including a gain, is an increase in assets or a decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities.

8.24 Revenue, other than a gain, can arise, for example, from:

(a) taxation;

(b) fines;

(c) penalties;

(d) the sale of goods;

(e) the rendering of services;

(f) income from investments;

(g) the use by others of the entity's economic resources yielding rent, interest, royalties or dividends; or

(h) the receipt of contributions of resources such as grants and donations.

8.25 An **expense**, including a loss, is a decrease in assets or an increase in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities.

8.26 An expense, other than a loss, can arise, for example, from:

(a) the provision of services;

(b) the production of goods;

(c) amortization of tangible capital assets;

(d) the use of others' economic resources resulting in rent, interest or other financing costs; or

(e) the transfer of resources, such as through grants or other contributions.

8.27 A gain and a loss can arise, for example, from:

(a) the disposition of assets purchased for use and not for resale;

(b) the liquidation or refinancing of debt; and

(c) remeasurements.

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20 A "performance obligation" is defined in REVENUE, Section PS 3400.

CHAPTER 9: RECOGNITION AND MEASUREMENT IN FINANCIAL STATEMENTS[21]

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Introduction

9.01 Recognition and measurement in financial statements are inextricably linked. An item, transaction or other event must be measurable to be recognized. However, there may be items, transactions or other events that can be measured that are not recognized but merely disclosed because other recognition criteria are not met.

9.02 Recognition, derecognition and measurement requirements for specific items, transactions or other events may be established at the standards level.

Recognition

9.03 **Recognition** means the inclusion of an item, transaction or other event within one or more individual statements. Recognition does not mean disclosure in the notes and schedules to the financial statements. Notes and schedules provide:

(a) further details about items, transactions or other events recognized in the financial statements; or

(b) information about items, transactions or other events that do not meet the criteria for recognition and, therefore, are not recognized in the financial statements.

Similar items, transactions or other events may be grouped together on the face of the financial statements for presentation purposes.

21 Chapter 9 builds on Chapter 8 and assumes the concepts in Chapters 1-8.

9.04 Recognition decisions include:

(a) whether an item, transaction or other event is to be included in the financial statements;

(b) when such an item, transaction or other event is to be included; and

(c) at what amount the item, transaction or other event is included (measurement).

General recognition criteria

9.05 *An item, transaction or other event is recognized in the financial statements when:*

(a) the item, transaction or other event meets the definition of an element;

(b) it is expected that the future economic benefits related to the item will be obtained or sacrificed; and

(c) the item, transaction or other event can be measured.

9.06 Even if a specific standard does not exist for a particular item, transaction or other event, the item, transaction or other event would be recognized in financial statements if it meets the general recognition criteria, subject to the concepts identified in Chapter 7, "Financial Statement Information: Qualitative Characteristics of Financial Information and Related Considerations."

9.07 The general recognition criteria require the assessment of:

(a) existence uncertainty; and

(b) measurement uncertainty, including:

(i) realization uncertainty; and

(ii) estimation uncertainty.[22]

9.08 Assessments of uncertainty are based on all available evidence at the reporting date. The conditions that give rise to uncertainty can change; therefore, it is important to assess uncertainty at each reporting date.

Existence uncertainty

9.09 Existence uncertainty deals with the question of whether an item, transaction or other event meets the definition of an element. This question requires a binary answer: either an item, transaction or other event meets the definition of an element or it does not. All available evidence relevant to the question is considered when coming to a determination. Only items that meet the definition of an element of financial statements are recognized. Chapter 8, "Elements of Financial Statements," defines the elements.

Measurement uncertainty

9.10 Items, transactions or other events that meet the definition of an element are evaluated in terms of realization uncertainty[23] and estimation uncertainty in assessing whether and at what amount they would be recognized in financial statements. Professional judgment would be applied in evaluating these types of uncertainty and their impact on recognition and measurement.

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22 The concept of "measurement uncertainty" is not mentioned explicitly in the existing conceptual framework. However, the realization and estimation dimensions of measurement uncertainty are considered in the general recognition criteria. MEASUREMENT UNCERTAINTY, Section PS 2130, deals with estimation uncertainty only. As a result, PSAB proposes consequential amendments to Section PS 2130 in the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework."

23 Realization uncertainty relates only to items, as expectation of an inflow or sacrifice of future economic benefits is included in the asset and liability definitions.

Realization uncertainty

9.11 Realization uncertainty refers to the risk that an inflow or sacrifice of future economic benefits associated with an item will not occur.

9.12 Realization uncertainty may be more identifiable for some items than others. For example, the level of realization uncertainty relating to a tangible capital asset that the entity owns and employs directly when providing services will be low. The entity would expect to realize the benefits associated with that asset as its service potential is used up to provide services over its useful life unless the asset is damaged or the need for the services it provides changes.

9.13 In other cases, such as a lawsuit, the level of realization uncertainty may be less easily identified and quantified for measurement purposes. The following are considerations when determining the amount to recognize and/or disclose in relation to items for which there is realization uncertainty:

(a) possible outcomes relating to the item; and

(b) the expectation of each possible outcome in the opinion of management, in consultation with legal advisors where appropriate.

9.14 When a determination is made that an inflow or sacrifice of future economic benefits related to an item is expected, the item may qualify for recognition. Recognition decisions are based on a holistic evaluation of the circumstances and possible outcomes and supported by all available evidence regarding the expectation of realization.

9.15 "Expected" is the realization threshold for recognition in financial statements. Items not expected to be realized are not recognized in the financial statements.

9.16 The word "expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed based on available evidence or logic but is neither certain nor proved. No numerical value quantifies what the expected threshold would be interpreted to mean in all instances. Quantitative and qualitative evidence is considered when deciding if the inflow or sacrifice of future economic benefits associated with an item is expected to be realized. The determination of when the expected threshold of realization uncertainty is met is a question of professional judgment.

9.17 An entity would evaluate the level of realization uncertainty at each reporting date.

Estimation uncertainty

9.18 The measurement of an item that meets the definition of an element, and is expected to be realized, may involve a known or estimated amount. The measurement of a transaction or other event that meets the definition of an element, may also involve a known or estimated amount.

9.19 For known amounts, such as for an unconditional amount resulting from an arm's length exchange transaction between knowledgeable, willing parties who are under no compulsion to act, estimation uncertainty is not a factor. Such items, transactions or other events would be initially recognized at the known amount.

9.20 In other cases, there is no known amount, and an estimate is required for initial recognition. In such cases, estimation uncertainty is considered in determining the amount at which to recognize an item, transaction or other event in financial statements, and in determining the nature and extent of the disclosures relating to such measurement.

9.21 Many items, transactions or other events recognized are measured using management's best estimates based on a consideration of all available evidence, such as assumptions that reflect expected economic conditions and planned courses of action. When a particular amount within a range of possible amounts appears to be a better estimate than any other, that amount would be used.

9.22 If there is a range of reasonably possible amounts for measuring an item, transaction or other event and this estimation uncertainty would have a material effect on the financial statements, then disclosures about the range of amounts, assumptions used in estimating and other information may also be required.

9.23 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine the ability to faithfully represent financial position and financial performance. However, when a reasonable estimate cannot be made, the item, transaction or other event is not recognized in the financial statements. Disclosure of the item, transaction or other event may be required.

Disclosure

9.24 Disclosure can provide information on items, transactions or other events that:

(a) meet many, but not all, of the essential characteristics of the definition of an element;

(b) meet the definition of an element, but the inflow or sacrifice of future economic benefits is not expected to be realized; or

(c) meet the definition of an element and the inflow or sacrifice of future economic benefits is expected to be realized, but the item cannot be measured.

9.25 Disclosure is appropriate when knowledge of the item, transaction or other event is considered necessary for evaluating an entity's financial position or financial performance in terms of whether the accountability objective of financial reporting is achieved. Chapter 10, "Presentation Concepts for Financial Statements," provides further guidance when considering the need for such disclosure.

9.26 When a material change in an amount that is recognized or disclosed is reasonably possible in the near term, the notes and schedules to the financial statements would need to provide information about the nature and extent of that uncertainty.

Derecognition

9.27 **Derecognition** is the removal of all or part of a previously recognized item from the financial statements. This normally occurs when:

(a) all or part of an item no longer meets the definition of an asset or liability; or

(b) it is no longer expected that the future economic benefits related to the item will be obtained or sacrificed; or

(c) the item can no longer be measured.

9.28 Derecognition of a previously recognized item generally arises as a result of an entity's actions or events and circumstances affecting the entity; therefore, the need to consider derecognition of an item may occur at any time. At a minimum, at each reporting date, an entity would evaluate all available evidence as to whether actions, events or circumstances have occurred since the previous reporting date that warrant removing all or part of an item that has been previously recognized, from the financial statements.

Measurement

9.29 **Measurement** is the result or process of determining the monetary amounts at which individual items, transactions or other events are to be recognized in the financial statements.

9.30 Measurement is necessary at initial recognition and is reconsidered at every subsequent reporting date. Measurement decisions are based on a holistic evaluation of the circumstances and possible outcomes and supported by all available evidence.

9.31 A measurement attribute is the feature of the asset or liability that is quantified. Such quantification may require estimation.

9.32 Several measurement attributes can be used for initial or subsequent measurement in financial statements. Initial or subsequent measurement of an asset or liability may require estimation of its required measurement attribute.[24] Although not comprehensive, the following lists possible measurement attributes:

(a) Historical cost is:

(i) the amount of cash or its equivalent paid, or the value of other consideration given up, to acquire, construct or develop an asset;

(ii) the amount of cash or its equivalent, or the value of the other consideration received when a liability is incurred (i.e., historical proceeds);

(iii) the estimated amount of cash or its equivalent to be paid or other consideration to be sacrificed to

a. settle a liability; or

b. acquire, construct or develop an asset.

Historical cost is a measurement attribute used for initial measurement. At initial measurement, if the historical cost of an asset or liability is not identifiable from the transaction or other event giving rise to it (i.e., is not a known amount), an estimated historical cost may be required. The fair value ascribed to the asset or liability at initial measurement may be one way to estimate its historical cost.

Subsequent to initial measurement:

(i) the historical cost of an asset may be adjusted (e.g., for amortization or impairment); or

(ii) the historical cost of a liability may be adjusted (e.g., to reflect the accrual of interest, the accretion of a discount or amortization of a premium); or

(iii) an estimated historical cost amount may be adjusted because of a change in an estimate.

(b) Replacement cost is the amount needed to acquire equivalent service potential inherent in an asset. This attribute may be used, for example, if inventories are required to be valued at the lower of historical cost and replacement cost.

Replacement cost is an attribute considered primarily for assets. However, for liabilities, an equivalent measurement would be the amount of proceeds that would be obtained if the liability were incurred currently (i.e., current proceeds).

(c) Realizable value is the amount that would be received by selling an asset (i.e., the amount of cash or its equivalent into which an asset is expected to be converted in the due course of operations). This attribute may be used, for example, to value tax receivables. Fair value may be used to estimate realizable value when a market for an asset exists. For liabilities, an equivalent measurement would be the amount that either a creditor will accept in settlement of the liability or a third party would charge to accept the transfer of the liability.

24 Care must be taken to distinguish between re-estimation for subsequent measurement and derecognition of part of an already recognized item.

(d) Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. This measurement attribute may be used, for example, to value derivatives and portfolio investments in equity instruments quoted in an active market, or for valuation of donated capital assets.[25] Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

9.33 Various measurement techniques may be used for estimation of a measurement attribute; measurement techniques are not measurement attributes. Examples of measurement techniques include present value, statistical modelling, and option pricing models:

(a) Present value is the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. This technique may be used, for example, to estimate the cost of retirement benefits, when calculating asset retirement obligations, or when determining the grant portion of concessionary loans and portfolio investments.

(b) Statistical modelling may be an appropriate valuation technique to use when multiple input sources, including economic data, and assumptions are required to estimate an amount. For example, statistical modelling may be used to estimate tax receivables.

(c) Option pricing models may be one way to measure financial instruments carried at fair value for which no active market exists.

The Measurement Attribute

9.34 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. The justification for requiring a measurement attribute other than historical cost would be explained and documented in the relevant standard's basis for conclusions.

9.35 Historical cost speaks to users' needs for accountability for past decisions, transactions and other events and, more generally, past performance. The use of historical cost generally aligns with the nature of the accountabilities users seek in relation to the comparison of actual performance with that budgeted. Because use of the historical cost attribute reflects assets, liabilities, transactions and other events at the amounts at which they occurred, the financial statements can explain how the entity's management met its responsibilities. Further, historical cost information may have predictive value, as the past can inform the future.

9.36 However, there may be circumstances where another measurement attribute of an asset or liability is considered to better serve the accountability objective and better reflect the qualitative characteristics required of financial statement information. In such circumstances, PSAB may require a measurement attribute other than historical cost.

Going Concern

9.37 *Financial statements are prepared on the assumption that the entity is a going concern. This means that the entity will continue in operation and will be able to realize assets and discharge liabilities and meet its statutory and other obligations in the normal course of operations for the foreseeable future.*

25 Fair value is a market-based measurement, and not an entity-specific measurement, and that fair value reflects current market conditions (which reflect market participants', not the entity's, current expectations about future market conditions).

9.38 Governments are long-term institutions. Under normal circumstances, they, and the related government components that function as a core government, are expected to operate in perpetuity. This expectation is predicated on the characteristics of government, in particular the powers, rights and abilities of governments and their capacity to issue debt and raise resources. Because of their longevity, they are presumed to be going concerns. This presumption can only be rebutted by persuasive evidence to the contrary.

9.39 The going concern presumption applies to government organizations in the same way it applies to the controlling government. However, government organizations may be discontinued or sold as governments look at alternative mechanisms for delivering services and, therefore, may not operate in perpetuity.

9.40 If the going concern assumption becomes inappropriate, a change may occur in the expectation of realization of an asset or settlement of a liability. As a result, the measurement attribute for a particular asset or liability may need to be reconsidered.

CHAPTER 10: PRESENTATION CONCEPTS FOR FINANCIAL STATEMENTS[26]

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Introduction

10.01 This chapter establishes general presentation concepts. It does not set out detailed financial statement presentation requirements, such as the required financial statements or indicators of financial position and periodic financial performance. These, and other presentation requirements, are established at the standards level. They affect the extent to which an entity can select, locate and organize information in its financial statements. Within these standards-level presentation requirements or in circumstances when presentation is not prescribed by standards, professional judgment is required in making presentation decisions. The concepts set out in this chapter provide parameters within which presentation decisions would be made.

26 Chapter 10 builds on Chapter 9 and assumes the concepts in Chapters 1-9.

Presentation Definition and Objective

Presentation definition

10.02 ***Presentation*** *is how an entity communicates information in its financial statements to meet the financial reporting objective and the specific financial statement objectives. It involves the selection, location and organization of information. Presentation includes:*

(a) the recognition and reporting of items, transactions and other events on the face of the financial statements, either individually or within totals; and

(b) disclosure in the notes and schedules to the financial statements.

10.03 The Conceptual Framework, which includes the qualitative characteristics and related considerations, the element definitions and the recognition criteria, underlies and provides guidance as to what information is included on the financial statements.

10.04 Guided by the Conceptual Framework, an entity assembles the information that will be included in its financial statements by applying the requirements of the PSA Handbook as follows:

(a) apply GAAP to all items, transactions and other events, including the reporting requirements that identify the financial statements to be prepared and the indicators of financial position and periodic financial performance that are to be reported on;

(b) for items, transactions and other events for which a standard exists, also apply the qualitative characteristics and related considerations; and

(c) for all items, transactions and other events for which no standard exists, consider the general application standards in LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210, and the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, which references the Conceptual Framework.

10.05 Once all the required information to be included in the financial statements has been assembled, an entity would consider:

(a) the presentation definition;

(b) the presentation objective; and

(c) the presentation concepts

in this chapter to determine where and how to organize the information in the financial statements.

10.06 Additional contextual and explanatory information may be required to make the financial statements understandable or to meet the accountability objective.

Presentation objective

10.07 *How information is presented in financial statements should maximize the accountability value of the financial statements to the users. Its presentation should also portray a cohesive financial picture of an entity's economic activities. This presentation would:*

(a) meet the objective of financial reporting;[27]

(b) meet the specific financial statement objectives;[28]

27 The objective of financial reporting is to provide information for accountability purposes, as explained in Chapter 3.

28 The financial statement objectives, described in Chapter 6, relate to: (a) the scope of financial statements; (b) reporting financial position; (c) reporting changes in financial position; (d) comparing the actual performance to that projected in the budget; (d) disclosing non-compliance with financial authorities; and (e) disclosing risks and uncertainties.

(c) *consider the qualitative characteristics of financial statement information and the related considerations;*[29] *and*

(d) *achieve fair presentation.*

10.08 A cohesive financial picture means that the relationship between items, transactions and other events across financial statements is clear and that an entity's financial statements, including the related notes and schedules, complement each other as much as possible. Ensuring that the association between the different aspects of the same transaction or other event is apparent in the financial statements is a fundamental aspect of providing a cohesive financial picture.

10.09 Public sector accounting standards identify the information required for fair presentation in financial statements.

Presentation Concepts

10.10 Financial information would be presented either on the face of the financial statements (i.e., line items or in subtotals and totals) or in the notes and schedules. The distinction between information that is presented on the face of a financial statement and information that is presented in the notes or schedules is determined by:

(a) the definitions of assets, liabilities, revenue and expense identified in Chapter 8;

(b) the recognition and measurement concepts identified in Chapter 9; and

(c) the financial statement objectives identified in Chapter 6.

Equality of individual statements and notes in the financial statement package

10.11 *Presentation Concept 1: No one individual statement in the financial statement package is more important than any other individual statement. Each statement has its own purpose. The notes and schedules in the financial statement package have the same significance as information recognized and reported on the face of the financial statements.*

10.12 Financial statements reflect different aspects of the same transactions or other events affecting an entity. Although each statement presents different information, none is likely to serve only a single purpose or to provide all the financial information that is useful for a particular kind of assessment or decision.

10.13 Recognition and reporting of items, transactions and other events on the face of the financial statements, either individually or within totals, does not necessarily meet all the accountability requirements. Notes and schedules are integral to the financial statements. They clarify and explain items, transactions and other events recognized and reported on the face of the financial statements. Notes and schedules present information that augments and supports fair presentation of an entity's financial position and periodic financial performance.

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29 The qualitative characteristics outlined in Chapter 7 include: (a) relevance; (b) faithful representation; (c) verifiability; (d) comparability; (e) understandability; and (f) timeliness. The related considerations presented in Chapter 7 include: (a) benefit versus cost; (b) materiality; and (c) prudence.

10.14 All statements and the related notes and schedules would be looked at together when evaluating the presentation of an entity's financial position and periodic financial performance for cohesiveness and how well it meets the qualitative characteristics of financial information. How items, transactions and other events are presented in financial statements helps users of financial statements assess an entity's financial position and periodic financial performance. This assessment is easier to achieve when relationships among the statements, and the items, transactions and other events presented in them, are clear. The related disclosures in the notes and schedules are crucial to providing a cohesive picture of an entity's financial position and periodic financial performance that meets the qualitative characteristics and related considerations.

Disclosure

10.15 Disclosure can provide information on items that meet many but not all the essential characteristics of an element. Disclosure can also provide information on items that meet the definition of an element, but a reasonable estimate cannot be made of the amount involved. Disclosure is generally appropriate when knowledge of the item, transaction or other event is considered necessary to evaluating the entity's accountability for its financial position or periodic financial performance and, therefore, meets the objective of financial statements.

10.16 *Presentation Concept 2: Information presented in financial statements meets the presentation objective when it:*

(a) provides information at the level of detail appropriate to financial statements;

(b) gives higher profile in disclosures to matters of importance that have occurred in the period; and

(c) is entity and period specific.

Providing information at the appropriate level of detail

10.17 The level of detail provided in the financial statements is a matter of professional judgment. A decision on the level of detail would balance the need to meet the identified financial statement objectives with the need for understandable financial statements for the users. The level of detail would also reflect the highly aggregated nature of financial statements. When deciding on the level of detail, both collectively and for individual items, transactions and other events, an entity would consider the information's usefulness for accountability purposes.

Giving higher profile to matters of importance

10.18 Important matters that have occurred in the accounting period would be emphasized in presentation decisions. Giving higher profile to such matters:

(a) provides useful information for accountability purposes; and

(b) allows users to focus on them rather than be distracted by less important matters.

This presentation concept reinforces the consideration of materiality when preparing financial statements.

10.19 Entities will generally have established formats and ordering of information in their notes and schedules to their financial statements. Often the order of notes and schedules will mirror the order used on the face of the financial statements for users' ease of reference. Nevertheless, it is crucial that important matters that have occurred in the period not be unintentionally de-emphasized or obscured because of established disclosure practices. Identifying important matters in the period will require professional judgment. The nature and magnitude of such important matters may determine the most appropriate way to emphasize them through presentation decisions. Only significant accounting policies relevant to understanding the financial statements would be identified and disclosed.

Entity-specific information

10.20 An entity-specific context of information allows the entity to present its specific financial picture to users. Preparers are to avoid generalities and boilerplate information that does not provide appropriate entity-specific information.

Disclosure is not recognition

10.21 *Presentation Concept 3: Disclosure in the notes and schedules to the financial statements is not a substitute for the proper recognition and/or measurement of an item, transaction or other event.*

10.22 The disclosures that supplement, clarify and explain the items, transactions and other events given financial statement recognition are fundamental to meeting the accountability objective and portraying a cohesive financial picture of an entity's economic activities. A fundamental task of the notes and schedules is to contribute to the full disclosure and a faithful representation of items, transactions and other events that are recognized and reported on the face of the financial statements, either individually or within totals. Notes and schedules cannot, however, be used as a substitute for the proper recognition and/or measurement of an item, transaction or other event. Not recognizing, or inappropriately recognizing or measuring, an item, transaction or other event is not rectified either by disclosure of accounting policies used or disclosure in notes or schedules.

10.23 The purpose of the notes and schedules is to provide a description of:

(a) items, transactions and other events recognized and reported on the face of the financial statements, either as separate line items or within totals;

(b) unrecognized commitments, claims against the entity and rights of the entity;

(c) accounting policies, methods, assumptions and judgments used in recognizing and measuring items, transactions and other events;

(d) risks and uncertainties that could affect the entity's financial position or periodic financial performance as specified in the various standards in the PSA Handbook; and

(e) any critical information about the entity that is necessary for users to evaluate the financial position and periodic financial performance of the entity for accountability purposes.

The core requirements and supplemental information

10.24 GAAP set out in individual standards and guidelines of the PSA Handbook represents the core requirements for all public sector entities that prepare financial statements in accordance with the PSA Handbook. Entities may supplement the core financial statement requirements with additional information in the notes and schedules, as long as it:

(a) does not conflict with the core requirements;

(b) does not confuse or hide the meaning of the information included in the financial statements to meet the core requirements;

(c) is consistent with the Conceptual Framework; and

(d) does not reduce the accountability value of the resulting financial statements.

10.25 There may be instances where legislation requires certain entities to present information in the financial statements that is inconsistent with standards and/or the proposed Conceptual Framework. In these rare circumstances, this information is to be clearly disclosed as being inconsistent with the standards and/or the Conceptual Framework.

Trade-off

10.26 An entity might need to make a trade-off between some of these presentation concepts when preparing its financial statements. For example, while tailoring disclosures to an entity's own circumstances can help to ensure that information is relevant and easier for users of the financial statements to understand, it might reduce comparability and consistency between entities and periods. Professional judgment is important when applying these concepts to maximize the usefulness of the information for financial statement users.

Presentation choices

10.27 *Presentation Concept 4: Presentation choices are made within the context of whether they add to or support the accountability value provided by the set of financial statements. Considerations include:*

(a) the appropriateness of aggregating like items, transactions and other events to make them more understandable;

(b) the complexity, uncertainty and risk in relation to items, transactions and other events, and identifying the appropriate presentation of such matters, with the emphasis on providing understandable information;

(c) whether the information has a clear and demonstrable relationship to:

(i) information recognized and reported on the face of the statements, either individually or within totals; or

(ii) information disclosed elsewhere in the notes and schedules,

and how to present those relationships; and

(d) the nature, extent, organization and value of all disclosures in the notes and schedules at each reporting date and their ongoing impact on understandability of the entity's financial position and periodic financial performance.

Aggregation of financial information

10.28 Preparing financial statements for all but the simplest and smallest entities requires simplifying, condensing and aggregating data into meaningful line items, subtotals and totals. Nearly all reporting entities would find it excessive, difficult and expensive to provide information about every detail of their activities during an accounting period.

10.29 Conversely, too high a level of aggregation would result in the loss of useful information. For example, presenting only line items labelled "total assets" would not be helpful in differentiating the characteristics of an entity's assets. As a result, the concept of aggregation would also be applied in terms of the appropriateness of disaggregation, where more detail may be required to understand the entity's financial position and periodic financial performance.

Complex items, transactions and other events

10.30 To meet the accountability objective, financial statements are to be as understandable as possible. Part of presenting information in an understandable manner is stating information as simply as possible for users, while still meeting the qualitative characteristics and related considerations and the accountability objective. This understandability imperative is not to be interpreted as a reason to not provide relevant information just because it is complex. Certain information cannot be simplified. In such circumstances a financial expert might be required to interpret the information for users.

10.31 The most challenging aspects of effective presentation arise in relation to complex items, transactions and other events, and include:

(a) communicating the judgments and estimates that were made in preparing the financial statements;

(b) providing a clear and complete picture of economic resources and economic obligations not recognized in the financial statements; and

(c) conveying the risks and uncertainties associated with an entity.

Demonstrating the relationship between different pieces of information

10.32 Linking related pieces of information increases the understandability of financial statements. For example, providing cross-references to the various notes that relate to assets pledged as security allows readers to see a more complete picture of this aspect of the entity's finances.

Nature, extent, organization and value of disclosures

10.33 An entity would not simply repeat what was disclosed in the prior periods' financial statements without considering the continuing relevance of those disclosures for accountability purposes. Circumstances change; what was relevant in the past may no longer be relevant. The nature, extent, organization and value of all disclosures would be reconsidered at each reporting date. The following are some factors to consider:

(a) unnecessary duplication of information; and

(b) changing the way information is presented in the financial statements from period to period without considering that such changes may make it difficult for users to compare that information with other entities or between reporting periods.

10.34 To the extent allowed by the financial statement presentation standard,[30] presentation choices are evaluated in terms of whether they add to or support the accountability value provided by the set of financial statements. The understandability of the presentation alternatives would comprise part of the evaluation. The risks of omitting information and the effects on accountability would also be considered in presentation decisions.

10.35 Sufficient information, in terms of both scope and depth, required to meet the accountability objective of financial statements would be presented to ensure a complete and unbiased understanding of the entity's financial position and periodic financial performance. For example, the more uncertainty associated with an amount on the face of the financial statements, the more disclosures that are usually needed.

10.36 Excessive detail, vague or overly technical descriptions, and complex presentation formats would be avoided as they can result in confusion and misinterpretation.

30 The financial statement presentation standard is being reviewed. The most recent proposals are included in Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

Presentation techniques

10.37 Appropriate financial statement formats, terminology and classifications ensure that information is presented clearly and is understandable.

10.38 Consideration would be given to the effectiveness of various possible structures, such as tables, lists, graphs, headings, numbering, as well as the form and content of narrative descriptions and explanations.

10.39 Consideration would be given to using plain language. Plain language is writing designed to ensure the reader understands as quickly, easily, and completely as possible. Documents written in plain language are easier to read and understand. Plain language is concise, clear, direct and tailored to the circumstances. Jargon and overly technical terms would be avoided wherever possible.

10.40 Consideration would be given to:

- (a) linking related information by using consistent headings, presentation order and/or other methods appropriate to the relationship and type(s) of information;
- (b) referencing related information in other parts of the entity's financial reports;
- (c) cross-referencing and making clear the relationships between items, transactions and other events recognized or disclosed in the financial statements. Such cross-references would need to:
  - (i) enhance the accountability value of the financial statements;
  - (ii) promote the understandability of the entity's financial position and periodic financial performance; and
  - (iii) meet the qualitative characteristics of information to be presented in financial statements; and
- (d) using emerging technology to enhance presentation and access to the financial statements.

GLOSSARY

TERM	DEFINITION
ASSET	A present economic resource controlled by an entity as a result of past events[31] and from which future economic benefit is expected to be obtained.
DERECOGNITION	Derecognition is the removal of all or part of a previously recognized item from the financial statements. This normally occurs when: (a) all or part of an item no longer meets the definition of an asset or liability; (b) it is no longer expected that the future economic benefits related to the item will be obtained or sacrificed; or (c) the item can no longer be measured.
ECONOMIC OBLIGATION	An economic obligation is a duty or responsibility that an entity has no practical ability to avoid. It would be settled through the future sacrifice of economic benefits. Sacrificing economic benefits involves a future transfer or use of economic resources. A performance obligation is a type of economic obligation.[32]
ECONOMIC RESOURCE	An economic resource embodies value because it enables an entity to meet its objectives. Without an economic resource, future economic benefits cannot be obtained.
ECONOMIC PHENOMENA	For financial statement purposes, an entity's economic phenomena are its economic resources, economic obligations and the effects of transactions and other events that change those resources and obligations.
EXPENSE (including a loss)	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.
FINANCIAL CONDITION	A broad, complex concept with short- and long-term implications that describes an entity's financial health in the context of the overall economic and financial environment. Financial condition is an entity's financial health as assessed by its ability to meet its existing financial obligations, in respect of its service commitments to the public and its financial commitments to creditors, employees and others. Financial position is only one factor in determining an entity's financial condition.
FINANCIAL OBLIGATIONS	A category of economic obligations, to be settled through the use of financial resources.
FINANCIAL PERFORMANCE	A measure of an entity's accountability for the results of its policies, operations and activities quantified for an identified period in financial terms. The nature of financial performance is a function of what the entity is held accountable for accomplishing, in financial terms, in the identified period. Multiple perspectives of financial performance considered together provide a comprehensive picture of an entity's achievement in relation to the multiple accountabilities expected of it. Surplus or deficit and cash flow, as reported in financial statements, are financial performance measures.

31 "Events" include "transactions". "Transactions" are a subset of events.

32 A "performance obligation" is defined in REVENUE, Section PS 3400.

TERM	DEFINITION
FINANCIAL POSITION	A measure of an entity's financial condition as at a specified date. It is a function of the economic resources and obligations an entity is accountable for managing in meeting the entity's public interest objectives. Financial position is reported in financial statements (see Chapter 6) and calculated as specified in the reporting model set out in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."
FINANCIAL RESOURCES	A category of economic resources that can be used to discharge existing financial obligations or can be directly applied in spending. They are not for consumption in the normal course of operations.
LIABILITY	A present economic obligation of an entity to others as a result of past events,[33] the settlement of which is expected to result in a future sacrifice of economic benefit.
MEASUREMENT	The result or process of determining the monetary amounts at which individual items, transactions or other events are to be recognized in the financial statements.
NON-FINANCIAL OBLIGATIONS	A category of economic obligations to be settled through the use of or providing access to non-financial resources.
NON-FINANCIAL RESOURCES	A category of economic resources that are not financial resources.
PRESENTATION	How an entity communicates information in its financial statements to meet the financial reporting objective and the specific financial statement objectives. It involves the selection, location and organization of information. Presentation includes: • the recognition and reporting of items, transactions and other events on the face of the financial statements either individually or within totals; and • disclosure in the notes and schedules to the financial statements.
PROFESSIONAL JUDGMENT	Judgment exercised by an experienced and knowledgeable person with due care, objectivity and integrity within a framework of professional standards.
RECOGNITION	Recognition means the inclusion of an item, transaction or other event within one or more individual statements. Recognition does not mean disclosure in the notes and schedules to the financial statements.
REVENUE (including a gain)	An increase in assets or decrease in liabilities in the accounting period that results in an increase in net assets or decrease in net liabilities.
SERVICE CAPACITY	The capacity to serve the public. For financial statement purposes, only those aspects of service capacity that arise from past transactions and other events that create and/or change measurable economic resources and economic obligations can be reported in financial statements.

33 "Events" include "transactions". "Transactions" are a subset of events.

BASIS FOR CONCLUSIONS

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INTRODUCTION

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Background

BC.01 This Basis for Conclusions is a supporting document to the Public Sector Accounting Board (PSAB) Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector." It summarizes PSAB's considerations in reaching its conclusions.

BC.02 This Basis for Conclusions is non-authoritative accounting guidance issued by PSAB.

BC.03 Prior to approving a final conceptual framework, PSAB will review and deliberate responses to the Exposure Draft.

Why review and amend the existing conceptual framework and financial statement presentation standard

BC.04 PSAB is proposing changes to its existing conceptual framework and financial statement presentation standard because:

(a) It is necessary for a standard setter to periodically review its conceptual framework to ensure it remains relevant.

(b) Stakeholders asked PSAB to look at the existing conceptual framework to ensure it properly reflects and is grounded in the public sector environment.

(c) Some standards-level issues made some stakeholders, such as the 2007-2009 Joint Working Group, question the foundations of public sector financial reporting and they asked PSAB to reconfirm their appropriateness.[1]

BC.05 The objective of the Concepts Underlying Financial Performance project is to review and amend, if necessary:

(a) the concepts underlying financial performance in the existing public sector conceptual framework, FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100 (refer to the diagram on page i); and

(b) the reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

BC.06 The proposals related to the reporting model are included in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

1 The 2007-2009 Joint Working Group comprising selected PSAB members and deputy ministers of finance suggested that the existing conceptual framework in the Public Sector Accounting (PSA) Handbook required review, with a focus on reporting the financial performance of public sector entities.

BC.07 The two Exposure Drafts are issued at the same time, as the principles and the concepts are interrelated. The principles in the Exposure Draft of a proposed financial statement presentation standard operationalize the concepts in this Exposure Draft.

Issued documents for comment

BC.08 Since the project's inception, the Concepts Underlying Financial Performance Task Force ("the Task Force") issued three Consultation Papers and PSAB issued two other documents for comment.

BC.09 In August 2011, the Task Force issued Consultation Paper 1, "Characteristics of Public Sector Entities." Its purpose was to refine and better describe the characteristics of governments and other public sector entities. Through this Consultation Paper, the Task Force was able to gather feedback on the key characteristics of public sector entities that have financial reporting implications and create Chapter 2 of the proposed Conceptual Framework. These characteristics are intended to ground the development of concepts and principles in the realities of the public sector environment.

BC.10 In October 2012, the Task Force issued Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." It articulated the objective of public sector financial reporting, the primary users of those reports, broad financial reporting accountabilities and more specific financial statement accountabilities. It also asked for stakeholders' views on three possible reporting model approaches. Through this Consultation Paper, the Task Force was able to gather feedback to create Consultation Paper 3 and Chapter 3 of the proposed Conceptual Framework, as well as receive direction on the preferred reporting model approach.

BC.11 In March 2015, the Task Force issued Consultation Paper 3, "Conceptual Framework Fundamentals and the Reporting Model." It highlighted many of the concepts and principles proposed for a revised conceptual framework and reporting model. The feedback from this Consultation Paper provided guidance to develop the reporting model proposed in the Statement of Principles and the concepts in the Statement of Concepts.

BC.12 In May 2018, PSAB issued the following:

(a) the Statement of Concepts, "A Revised Conceptual Framework for the Canadian Public Sector"; and

(b) the Statement of Principles, "A Revised Reporting Model for the Canadian Public Sector."

PSAB received a significant amount of feedback on these documents.

BC.13 The proposals developed to date not only considered all of the feedback received from all the documents for comment issued, but they also considered international developments with conceptual frameworks in the public and private sectors, PSAB's proposals in other projects on its technical agenda, its strategic objectives and the Joint Working Group's recommendations.

Scope

BC.14 The proposed Conceptual Framework is intended to replace the conceptual aspects of Sections PS 1000 and PS 1100. Other aspects of Sections PS 1000 and PS 1100 have been moved to the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

BC.15 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, and GOVERNMENT REPORTING ENTITY, Section PS 1300, are part of generally accepted accounting principles (GAAP) and outside the scope of this project. Further, GOVERNMENT TRANSFERS, Section PS 3410, and FINANCIAL INSTRUMENTS, Section PS 3450, are outside the scope of this project. PSAB has a separate project on its technical agenda developing narrow scope amendments to Section PS 3450.

BC.16 Although the proposed Conceptual Framework is intended to apply to all public sector entities, those public sector entities that apply the PS 4200 series of the CPA Canada Public Sector Accounting (PSA) Handbook would continue to do so. Any amendments to the PS 4200 series would be made through PSAB's Government Not-for-Profit Strategy project.

CHAPTER 1: INTRODUCTION TO THE CONCEPTUAL FRAMEWORK

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Background

BC1.01 Chapter 1 of the proposed Conceptual Framework defines a conceptual framework and outlines the need for and the objectives of the conceptual framework.

BC1.02 The feedback on the Statement of Concepts, “A Revised Conceptual Framework for the Canadian Public Sector,” revealed that respondents were concerned with the following:

(a) existing standards inconsistent with the proposed Conceptual Framework;

(b) authority (or lack thereof) of the conceptual framework;

(c) future inconsistencies with the proposed Conceptual Framework;

(d) location of justification of future inconsistencies with the proposed Conceptual Framework; and

(e) how the proposed Conceptual Framework fits within the GAAP hierarchy.

Existing Standards Inconsistent with the Proposed Conceptual Framework

BC1.03 Some respondents noted that some standards in the PSA Handbook are inconsistent with the proposed Conceptual Framework. PSAB is aware of these inconsistencies. There are not many of them, but they do exist.

BC1.04 PSAB is reviewing some of these inconsistencies:

(a) through current projects on its technical agenda; or

(b) by determining whether the inconsistencies should be part of the next project priority survey that would direct the Board’s future technical agenda.

Authority of the Proposed Conceptual Framework

BC1.05 A few respondents expressed concern that the proposed Conceptual Framework would not override existing standards. Not overriding existing standards is consistent with the existing conceptual framework and common to many conceptual frameworks, including those of the international standard-setting boards.

BC1.06 A conceptual framework is not part of GAAP even though it provides the framework within which GAAP is developed.

BC1.07 Although nothing in the proposed Conceptual Framework overrides any specific standard, it is important and relevant because it will help:

(a) PSAB develop standards that are based on consistent concepts;

(b) preparers develop consistent accounting policies when no standard applies to a particular item, transaction or other event; and

(c) all parties understand and interpret the standards.

Future Inconsistencies with the Proposed Conceptual Framework

BC1.08 In some circumstances, PSAB might need to depart from aspects of the proposed Conceptual Framework. The proposed Conceptual Framework acknowledges this. It also specifies that such approved departures are appropriate only if needed to meet the financial reporting objective: to provide information for accountability purposes. That need might arise because conceptual thinking or the economic environment may have evolved, and new or revised standards might need to reflect these changes.

BC1.09 PSAB believes that future inconsistencies with the proposed Conceptual Framework would be rare.

Location of Justification of Future Inconsistencies with the Proposed Conceptual Framework

BC1.10 Several respondents noted that the Statement of Concepts stated "any inconsistency between the conceptual framework and new standards will be justified and explained in the relevant basis for conclusions documents." They indicated that, for transparency, the inconsistencies should be clearly explained in the standard.

BC1.11 PSAB considered this feedback. It concluded that the justification of an inconsistency between the standard and the proposed Conceptual Framework should be in the relevant standard's basis for conclusions document as the purpose of the standard is to document the accounting for a specific transaction. The Board felt that having the justification for its decisions in the standard's basis for conclusions document was transparent and in line with its due process.

How the Proposed Conceptual Framework Fits within the GAAP Hierarchy

BC1.12 Respondents have requested clarification on which sources take precedence when a topic is not included in public sector accounting standards.

BC1.13 Paragraph PS 1150.05 states:

> When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:
>
> (a) the primary sources of GAAP; and
>
> (b) the application of the concepts described in Section PS 1000.[2]

BC1.14 The Section PS 1000 reference would be replaced with the proposed 10-chapter Conceptual Framework. As a result, paragraph PS 1150.05(b) would be amended, through a consequential amendment, to reflect the proposed Conceptual Framework.

2 According to paragraph PS 1150.03(c), the “primary sources of GAAP are, in descending order of authority: (i) standards in Sections PS 1201-PS 3510; (ii) Public Sector Guidelines; and (iii) appendices and illustrative materials of those pronouncements described in (i)-(ii) above.”

CHAPTER 2: CHARACTERISTICS OF PUBLIC SECTOR ENTITIES

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Background

BC2.01 Chapter 2 of the proposed Conceptual Framework focuses on the key characteristics of public sector entities.

BC2.02 The chapter builds on and would replace Appendix A, "Unique Characteristics of Government," in Section PS 1100. The characteristics in Appendix A identify the implications for financial statement reporting but do not fully describe the characteristics of the public sector environment. The public sector environment is seen as a crucial context for developing a conceptual framework, for setting public sector financial reporting standards and for understanding public sector financial statements. Identifying the characteristics of public sector entities, which include governments, government components and government organizations, will result in concepts and standards that are appropriate to the public sector.

BC2.03 When developing this chapter, PSAB considered all public sector entities.

Characteristics of Public Sector Entities

BC2.04 There was general support from respondents for the description of the characteristics of public sector entities noted in the Statement of Concepts.

BC2.05 Some respondents indicated that not all characteristics apply to all public sector entities. Specifically, not all the characteristics apply to government components and government organizations.

BC2.06 A few respondents made the following suggestions:

(a) The purpose of non-financial resources should be included in the description of non-financial resources.

(b) The longevity of governments should be considered as an additional characteristic.

(c) The overriding characteristic "inherent public accountability" should appear first.

(d) The financial reporting implications of each characteristic should be discussed.

Applicability to government components and organizations

BC2.07 Government components and government organizations may have some unique characteristics that are different from those of the government. PSAB considered these characteristics. The Board concluded that at a conceptual level, the key characteristics of government components and organizations for financial reporting purposes are the same as many of the key characteristics of governments. Throughout the chapter, the Board included material about how the characteristics apply to government organizations and government components (e.g., the proportion of exchange to non-exchange transactions of some government organizations may be higher than for governments). The material allows government components and government organizations to see themselves in the characteristics.

BC2.08 This does not mean that all of the characteristics apply to government components or government organizations. PSAB recognizes that there are several characteristics that do not apply to all public sector entities (e.g., a monopolistic environment).

BC2.09 PSAB acknowledges that the "inherent public accountability" characteristic, as worded in the Statement of Concepts, was too strongly tied to the power to tax. Many government organizations, such as government-not-for-profit organizations, do not have this power. So, the Board decided to amend the section titled "Power to tax." It thought that the phrase "ability to obtain and use public resources" better described the reasoning for the "inherent public accountability" characteristic and that taxation is just one way of obtaining public resources.

Purpose of non-financial assets

BC2.10 A few respondents suggested that PSAB include information about the purpose of non-financial assets. The Board agrees with the recommendation. As a result, it amended the section titled "Nature and use of public resources" to recognize that many non-financial resources are held with the primary purpose of providing goods and services.

Longevity of the public sector

BC2.11 Some respondents suggested that PSAB include a new characteristic related to the longevity of governments, as many governments and government organizations exist for a long time.

BC2.12 PSAB considered this suggestion and agrees. As a result, this new characteristic was added to the chapter.

Order of the "inherent public accountability" characteristic

BC2.13 A few respondents suggested discussing the characteristic "inherent public accountability" first, as it is the overriding characteristic of public sector entities. PSAB agrees.

BC2.14 PSAB also explains why "inherent public accountability" is the overriding characteristic, taking into account respondents' feedback.

Identifying and describing the financial reporting implications of each characteristic

BC2.15 Some respondents suggested that PSAB identify and describe the financial reporting implications of each characteristic. The Board considered this request. The chapter focuses on the key characteristics of public sector entities to understand the public sector environment. As a result, the Board felt that it is too early to discuss the financial reporting implications of the characteristics in Chapter 2.

BC2.16 PSAB concluded that some characteristics of public sector entities fundamentally shape what is reported on in public sector financial reports. A key example is the inherent public accountability of public sector entities, which forms the lens through which the rest of the proposed Conceptual Framework is developed, and which guides the information to be included in financial statements. The focus on service capacity and changes in it, to the extent it can be reported on in financial statements, is derived from the overall objective of public sector entities to serve the public.

BC2.17 Other characteristics of public sector entities (or related sub-characteristics) require special consideration in setting public sector accounting standards, as they represent issues unique to the public sector. Some may convey to public sector entities unique ways to raise or use resources. These include taxation and resource reallocation powers, the volume and significance of non-exchange transactions, the nature of resources as primarily comprising future service potential rather than future cash flows, and the authority to fine and penalize and issue licences, etc.

CHAPTER 3: FINANCIAL REPORTING OBJECTIVE

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Background

BC3.01 Most of the material in Chapter 3 is based on material issued for comment in the Task Force's Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." There was general support from respondents for the primary users and the objective of financial reporting. The main change to the information in Consultation Paper 2 pertains to the list of the broad accountabilities reported on in financial reports.

BC3.02 One of the broad accountabilities referred to the extent to which current activities or results affect the activities or results of future periods. After considering the feedback, which indicated that this focus was too narrow, PSAB amended this broad accountability to reflect the requirement for financial reports to show the entity's financial performance.

BC3.03 Another broad accountability dealt with "the extent to which the entity performed in accordance with its financial plan." Based on the work done on the characteristics of public sector entities, PSAB concluded that this broad accountability was limited because it did not consider the other dimensions related to legislated frameworks of which a "financial plan" is a part. Consequently, the accountability was expanded to state "the extent to which the entity performed in accordance with its financial authorities and plan."

BC3.04 Based on the feedback on the Statement of Concepts, PSAB decided to include the broader notion of service capacity in this chapter as service capacity underpins the broad accountabilities of financial reporting in the public sector, specifically financial condition and financial performance.

The Concept of Service Capacity

BC3.05 In the Statement of Concepts, PSAB described the concept of service capacity in Chapter 5, "Financial Statement Foundations."

BC3.06 Since the purpose of public sector entities is to serve the public, as indicated in Chapter 2, "Characteristics of Public Sector Entities," evaluating an entity's capacity to serve the public is important for accountability purposes. This concept is referred to as service capacity. It is similar to the capital maintenance concept in private sector financial statements.[3] The intent of introducing this concept is to explain how a fundamental tenet of accounting theory related to measuring financial performance applies in the public sector.

BC3.07 The concept is not new; only its articulation in the proposed Conceptual Framework and its label are. PSAB considered many different labels, such as "program capacity" and "capacity for future use". However, the Board felt that the term "service capacity" best reflects the concept from a public sector perspective.

3 The notion of maintaining capital or not is important, as it is needed to measure financial performance.

BC3.08 Although some respondents to the Statement of Concepts noted an improvement to the description of service capacity (from what was provided in Consultation Paper 3), there continued to be concerns with the concept such as:

(a) users will be confused by it;

(b) the concept will be confused with service potential; and

(c) service capacity is a broad concept that cannot be fully measured in financial statements.

BC3.09 In developing the description of service capacity, PSAB noted the following:

(a) The term "service capacity" would not replace any of the existing terminology in the financial statements; it is solely a label for an underlying concept. As a result, this should decrease the potential for confusion among users of financial statements.

(b) The term "service capacity" is currently used more narrowly in the PSA Handbook to describe the service potential of tangible capital assets. As a result, clarifying consequential amendments to refer only to service potential are proposed in those paragraphs where the term applies at the asset level, rather than being applied in the broader context.[4]

(c) Financial statements cannot demonstrate or measure and report all aspects of this broad concept of service capacity or changes in it. Nevertheless, reporting the part of an entity's service capacity and changes in that capacity that can be reflected in financial statements is significant. It demonstrates the entity's accountability for the resources entrusted to it for serving the public.

BC3.10 The intended outcome of articulating the service capacity concept in the Statement of Concepts was to increase the understanding of the concept that underlies the measurement of financial position and financial performance in public sector financial statements. This continues to be PSAB's intent. However, since financial statements can only measure and report part of an entity's service capacity, the Board acknowledges that the concept may not be a financial statement foundation. As a result, the Board is no longer identifying the concept of service capacity as a financial statement foundation (i.e., the Board removed the concept from Chapter 5). It relocated the discussion of this concept to:

(a) Chapter 3, by identifying it as a notion that underpins financial condition and financial performance, the broad accountabilities of public sector financial reporting; and

(b) Chapter 4, by explaining the extent to which it can be reported in financial statements.

BC3.11 The notion of service capacity underpins the broad accountabilities of public sector financial reporting, specifically financial condition and financial performance because:

(a) reporting on financial condition provides insight into an entity's service capacity; and

(b) reporting on financial performance provides insight into how an entity's decisions, transactions and other events of the period have affected its service capacity.

Financial Reporting Objective

BC3.12 The objective of financial reporting by public sector entities is to provide information for accountability purposes. Information provided for accountability purposes will contribute to and inform decision making by the public and its elected or appointed representatives and other users. PSAB has reaffirmed these conclusions as appropriate to the public sector after considering input requesting a dual objective of providing information for accountability and decision making.

4 For more details, see the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework."

CHAPTER 4: ROLE OF FINANCIAL STATEMENTS

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Paragraph

Background

BC4.01 Chapter 4 connects Chapters 1 and 2 and especially Chapter 3, which discusses the objective of financial reporting, with the remainder of the proposed Conceptual Framework, which focuses on financial statements alone.

BC4.02 Financial statements are a fundamental component of an entity's financial reporting.

Service Capacity

BC4.03 Chapter 3 introduces the broad notion of service capacity. It explains that service capacity is not strictly financial; it includes non-financial aspects, such as productivity, innovativeness of people and programs, quality and education of the labour force, etc. Chapter 3 also explains that an entity's service capacity has implications for its financial condition and financial performance.

BC4.04 Chapter 4 recognizes that since service capacity is a broad concept, financial statements cannot demonstrate or measure all aspects of service capacity or changes in it. Nevertheless, reporting those aspects of an entity's service capacity and changes in it that can be reflected in financial statements, its financial position and periodic financial results, is significant. Reporting those aspects of service capacity and changes in it helps demonstrate the entity's accountability for serving the public.

BC4.05 The maintenance of service capacity, and changes in it over time, provide the structure for identifying various measures of an entity's financial position and periodic financial results.

Implication of the service capacity concept on measurement decisions

BC4.06 Some of the feedback received on the service capacity discussion highlighted a curiosity toward the implication the concept would have on measurement decisions.

BC4.07 According to accounting literature,[5] financial capital maintenance, the equivalent concept in the for-profit sector, describes the net resources that must be maintained to distinguish between what is a return of capital and what is income. It is measured at the monetary value of net resources, with the value determined in accordance with whatever basis is used for valuing the assets and liabilities of the enterprise (i.e., historical cost, current cost, net realizable value, etc.). Likewise, the service capacity concept, a financial concept of capital maintenance, does not require the use of any particular measurement attribute.

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5 The literature included: Ross M. Skinner and J. Alex Milburn, *Accounting Standards in Evolution*, 2nd ed., (Toronto: Pearson Education Canada, 2000); FASB Discussion Memorandum, "An Analysis of Issues Related to Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement," Financial Accounting Standards Board, December 2, 1976; and IASB, Conceptual Framework, "Chapter 8: Concepts of Capital and Capital Maintenance," 2019.

CHAPTER 5: FINANCIAL STATEMENT FOUNDATIONS

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Background

BC5.01 Chapter 5 of the proposed Conceptual Framework identifies four financial statement foundations:

(a) identifiable reporting entity;

(b) the concept of control;

(c) the unit of measure; and

(d) the basis of accounting.

BC5.02 While these foundations are in the existing conceptual framework, PSAB feels that it is important to clearly identify and more fully explain them. In particular, the Board feels that additional information about the concept of control should be provided.

The Concept of Control

BC5.03 The concept of control permeates the theory underlying the determination of what is included in an entity's financial statements. As a result, PSAB feels that the general idea and role of control in determining what economic resources and entities are included in the reporting entity's financial statements should be articulated in the proposed Conceptual Framework. However, the application of control, including the mechanisms of how control works, determining if there is a preponderance of evidence that control exists, and the implications of controlled economic resources and entities for financial statements are articulated at the standards level.

BC5.04 The concept of control is not a new concept; only the articulation of it in the proposed Conceptual Framework is new.

BC5.05 Control was identified as a foundation of financial statements in the proposed Conceptual Framework for the following reasons:

(a) The concept of control helps determine what economic resources should be associated with an entity. In turn, this helps to determine the financial position and periodic financial performance of that entity.

(b) The concept of control provides parameters for including some entities and excluding others from a reporting entity's financial statements based on the nature of their relationship with the reporting entity.

BC5.06 When defining control in the proposed Conceptual Framework, it was important for the definition to be broad enough to encompass, at a minimum, the definitions of (unilateral) control and shared control already established in the PSA Handbook at the standards level. As a result, PSAB feels that the concept of control should reflect the common understanding of control as having the existing ability to direct the use of something with the expected benefits and/or risk of loss accruing to the reporting entity. The Board believes that the definition of control in Section PS 1300 and the definition of shared control in INTERESTS IN PARTNERSHIPS, Section PS 3060, fall within the proposed definition of control in the Conceptual Framework.

BC5.07 In its first attempt to describe control in a broad sense in the Statement of Concepts, PSAB received a significant amount of feedback from stakeholders. Although most agreed that the concept of control should be included and described in the proposed Conceptual Framework, many of these same respondents were concerned with the way it was described. They felt that parts of the description contradicted text in Section PS 1300. As a result, the Board amended the description of control to ensure that the proposed Conceptual Framework would support, build on and not contradict standards in the PSA Handbook. There was never an intent to change the meaning of control in existing standards but merely to explain the function that control plays in associating economic resources and other entities with a reporting entity. No consequential amendments at the standards level are intended to occur as a result of the control discussion in the proposed Conceptual Framework. A review of Section PS 1300 is outside the scope of this project.

BC5.08 The conceptual description of control was also amended to more specifically reflect that the nature of the relationship between:

(a) a reporting entity and another entity; or

(b) a reporting entity and an economic resource,

needs to be considered to determine if control exists.

BC5.09 In summary, the Exposure Draft:

(a) provides a conceptual definition of control;

(b) explains control from the perspective of controlling an economic resource and from the perspective of controlling an entity;

(c) describes what control is not; and

(d) explains the connection between the rights, powers and abilities of some public sector entities and the concept of control.

Service Capacity

BC5.10 In the Statement of Concepts, PSAB introduced the concept of service capacity in Chapter 5.

BC5.11 Since the purpose of public sector entities is to serve the public, as indicated in Chapter 2, evaluating an entity's capacity to serve the public is important for accountability purposes. This concept is referred to as service capacity. It is a fundamental concept.

BC5.12 PSAB acknowledges that it may not be appropriate to characterize the concept of service capacity as a financial statement foundation given that financial statements can only report certain aspects of an entity's service capacity. As a result, the Board removed the concept of service capacity as a financial statement foundation.

BC5.13 However, because it is a fundamental public sector concept, PSAB decided to describe the broader notion of service capacity in Chapter 3 in the discussion of the broad accountabilities of financial reporting. This was done as reporting on financial condition and financial performance gives insight into an entity's service capacity and changes in it.

BC5.14 PSAB also decided that the narrower notion of service capacity that can be measured and reported in financial statements should be explained in Chapter 4, which now:

(a) recognizes that financial statements cannot measure and report all aspects of an entity's service capacity; and

(b) identifies the aspects of an entity's service capacity that can be measured and reported in financial statements.

References to Economic Resources and Economic Obligations

BC5.15 An analysis of the feedback from the Statement of Concepts identified concerns with the repeated references to "economic resources" and "economic obligations" in the proposed Conceptual Framework, specifically Chapter 5, without a clear definition of such terms in the proposed Conceptual Framework. As a result, PSAB decided to include definitions for these items in Chapter 8, "Elements of Financial Statements," as they are directly linked to the definitions of assets and liabilities.

BC5.16 The proposed definitions of economic resources and economic obligations are also included in the Glossary of the Exposure Draft. Terms in this Glossary are intended to form part of a new summary Glossary for the whole PSA Handbook, to be issued once a revised Conceptual Framework and reporting model have been issued.

CHAPTER 6: FINANCIAL STATEMENT OBJECTIVES

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Background

BC6.01 Chapter 6 identifies the six financial statement objectives. These objectives provide a high-level overview of what should be reported in financial statements. Details of how these objectives are reflected in financial statements are included in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202." Chapter 6 should be read in conjunction with that Exposure Draft.

BC6.02 The following are the main changes proposed to the financial statement objectives from those set out in existing Section PS 1100:

(a) Amend the explanatory material related to each objective to focus on the specific objective and the importance of that objective in meeting the overarching accountability objective of public sector financial reporting. The details explaining what, where and how to report the information necessary to meet those objectives in financial statements have been relocated to the new financial statement presentation standard (i.e., proposed new Section PS 1202 exposed for public comment in Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202").

(b) Amend the explanatory material related to Objective 2 (reporting financial position) to introduce the notion that accountability reporting is improved when the financial statements separately report:

(i) the significant identifiable sources of an entity's financial position; and

(ii) the financial or non-financial nature of both economic resources and economic obligations.

(c) Amend the explanatory material related to Objective 3 (reporting changes in financial position) to:

(i) introduce the notion that some changes in the economic resources or economic obligations in the period are recognized outside of that period's surplus or deficit; and

(ii) remove the discussion on requiring the reporting of change in net debt.

(d) Divide Objective 4 (legislative control and government financial accountability) into two objectives:

(i) comparing actual financial performance with that budgeted (new Objective 4); and

(ii) disclosing non-compliance with financial authorities (new Objective 5).

(e) Add Objective 6, which requires disclosing risks and uncertainties that impact financial position or changes in financial position.

Objective 1: Scope of Financial Statements

BC6.03 The proposed objective is substantively the same as Objective 1 in the existing conceptual framework. It was amended slightly to reflect that an entity's financial statements should also account for the economic obligations it must settle, to achieve internal consistency within the proposed Conceptual Framework.

BC6.04 PSAB decided not to change significantly the financial statement objective for the following reasons:

(a) The issues stakeholders raised that gave rise to the review of the existing conceptual framework did not deal with the scope of the reporting entity.

(b) The feedback received from various consultations supported the objective.

Objective 2: Reporting Financial Position

BC6.05 The proposed objective was made more general, as compared to the one in the existing conceptual framework, as reporting financial position includes many things, such as reporting on:

(a) the entity's financial and non-financial assets[6];

6 Financial and non-financial assets are referred to as "financial and non-financial resources" in Chapter 6 as the asset element is introduced in Chapter 8.

(b) the entity's financial and non-financial liabilities[7];

(c) the entity's net financial assets or net financial liabilities indicator[8,9];

(d) the entity's net assets or net liabilities[10]; and

(e) the various sources (or components) of net assets or net liabilities.

Reporting on net debt or net financial assets[11]

BC6.06 Some respondents to the Statement of Concepts were concerned that the requirement to report net financial liabilities (currently known as net debt) or net financial assets was removed from the objective. Presenting information to determine net financial liabilities or net financial assets continues to be in the description underlying the objective (paragraph 6.21). As such, the requirement to report net financial liabilities or net financial assets has not been removed.

BC6.07 Respondents raised other issues relating to net financial liabilities (currently known as net debt), such as how it is calculated or its applicability to all public sector entities. Such issues are being dealt with in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202," as they are presentation rather than conceptual issues.

Reporting on the various sources (or components) of net assets or net liabilities

BC6.08 In Chapter 6, PSAB introduces the notion of separately reporting significant identifiable sources (or components) of net assets or net liabilities (paragraph 6.20). This is consistent with PSAB's existing reporting model in which the net assets or net liabilities position consists of two sources (or components):

(a) the accumulation of past surpluses and deficits; and

(b) the accumulation of unrealized remeasurements.

BC6.09 Accounting theory for a stewardship-focused model substantiates distinguishing unrealized remeasurements from financial performance arising from replicable operating activities. This reflects an accountability emphasis on realized performance and the greater uncertainty associated with unrealized performance. This theory supports the approach taken in the existing reporting model, which is set out at the standards level but is not reflected in the existing conceptual framework.

BC6.10 PSAB may identify other sources (or components) of net assets or net liabilities at the standards level if such identification better serves the accountability objective.

BC6.11 PSAB identifying further components is a practical choice to establish an aspirational reporting model. For example, it may be appropriate in a stewardship-focused model to exclude from surplus or deficit the initial recognition of items that will be held solely for stewardship purposes such as heritage items, natural capital and perhaps endowments restricted in perpetuity.

7 Financial and non-financial liabilities are referred to as "financial and non-financial obligations" in Chapter 6 as the liability element is introduced in Chapter 8.

8 In the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202," PSAB proposes to rename "net debt" to "net financial liabilities".

9 The net financial assets or net financial liabilities indicator is referred to as "net financial resources or net financial obligations" in Chapter 6 as the elements are introduced in Chapter 8.

10 The net assets or net liabilities indicator is referred to as "financial position" in Chapter 6 as the elements are introduced in Chapter 8.

11 For the rest of this Basis for Conclusions, where applicable, net debt will be referred to as "net financial liabilities", the name proposed in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

Objective 3: Reporting Changes in Financial Position

BC6.12 The existing objective focuses on three types of changes in financial position:

(a) the change in net assets or net liabilities;

(b) the change in net financial assets or net financial liabilities (currently known as net debt); and

(c) the change in cash.

BC6.13 The new objective focuses on the change in net assets or net liabilities and the change in cash flow. The change in net financial assets or net financial liabilities has been removed from the objective. A discussion that some changes in financial position arising in the period are recognized outside of that period's surplus or deficit, has been added.

Reporting the reasons for the change in net financial liabilities (currently known as net debt) or net financial assets

BC6.14 Past feedback related to the statement of change in net debt or net financial assets indicated that this statement is seen by many as merely an accounting reconciliation that does not add much value because it is not easily understood. Based on this feedback, PSAB worked through how the statement could be changed to make the reconciliation more understandable. After much consideration, in the Statement of Principles, the Board proposed to remove the requirement to present the statement of change in net debt or net financial assets. As a result of that decision, the focus on the change in net financial assets or net financial liabilities was removed from the financial statement objective. The majority of respondents agreed with this proposal. However, some respondents provided important feedback on some of the benefits of the statement. This feedback is considered from a reporting model perspective, in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

Reporting some changes in net financial position outside of that period's surplus or deficit

BC6.15 The explanatory material following the objective alludes to the fact that some changes in an entity's net financial position in the period are recognized outside of that period's surplus or deficit. Reporting an item outside of that period's surplus or deficit would be based on an evaluation that such reporting better contributes to meeting the accountability objective. It is not proposed that reporting outside of a period's surplus or deficit be a common occurrence. Most of an entity's raising and consumption of resources in the period would be recognized in that period's surplus or deficit.

BC6.16 Only items that PSAB approves can be reported outside of that period's surplus or deficit. For example, the existing reporting model requires unrealized remeasurements related to financial instruments measured at fair value arising in the period to be recognized outside of the surplus or deficit of the period.

Existing Objective 4: Legislative Control and Financial Accountability

BC6.17 The Statement of Concepts proposed dividing Objective 4 in Section PS 1100 into two separate financial statement objectives because it deals with two separate matters:

(a) comparing actual financial performance with that budgeted; and

(b) demonstrating whether the entity administered its financial affairs, economic resources and economic obligations in accordance with the requirements and limits established by the appropriate financial authorities.

BC6.18 Respondents to the Statement of Concepts supported this proposal.

New Objective 4: Comparing Actual Financial Performance to That Budgeted

BC6.19 Some respondents to the Statement of Concepts expressed two concerns:

(a) the objective should not be applicable to all public sector entities; and

(b) amended budgets should not be permitted.

Applicability of the budget objective to all public sector entities

BC6.20 The actual-to-budget comparison provides key accountability information about an entity's financial performance as reported in financial statements in achieving its financial objectives as outlined in the budget. It is considered a crucial aspect of the accountability cycle. All public sector entities should be held accountable for compliance with, and performance against, their budget, regardless of how the entity obtains its funds. Accountability must be demonstrated for the use of public funds received as well as for the use of all other types of funding. PSAB reconfirmed its support for this important objective and considers it appropriate for all public sector entities. Refer to Chapter 2 paragraphs 2.27-2.33 for an expanded discussion on the importance of the budget.

Using an amended budget

BC6.21 The Exposure Draft emphasizes using the original approved budget to compare with actuals. This is consistent with the existing conceptual framework. However, PSAB recognizes that in certain rare situations, using an amended approved budget for comparison with actuals may be more appropriate for accountability purposes. At the standards level (i.e., the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"), PSAB proposes the only two circumstances in which an approved amended budget may be used.

New Objective 5: Disclosing Non-compliance with Financial Authorities

BC6.22 PSAB recognizes that:

(a) there are many authorities; and

(b) compliance against all these authorities cannot be reflected in financial statements.

BC6.23 The intent of new Objective 5 is to consider solely non-compliance with financial authorities in relation to revenue, borrowing, investing, expense and expenditure limits. This is the same intention as that of Objective 4 in the existing conceptual framework. The intent is not to make Objective 5 broader or to require disclosures additional to those required in the existing reporting model.

BC6.24 Respondents to the Statement of Concepts:

(a) wanted further information or guidance related to the objective;

(b) wondered how the concept of materiality applies to the objective; and

(c) requested information as to how the objective can be applied by Indigenous governments.

Further guidance related to the objective

BC6.25 The objective is meant to foreshadow what would be presented in the financial statements. The existing requirements related to the objective are in Section PS 1201. Similar requirements are proposed in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

Concept of materiality

BC6.26 The objective is intended to apply to material non-compliance with financial authorities. As general guidance on materiality exists in the proposed Conceptual Framework (Chapter 7) and in the "Introduction to Public Sector Accounting Standards,"[12] the concept of materiality was not introduced within this objective.

Consideration of Indigenous governments

BC6.27 Many Indigenous governments have enacted their own laws respecting financial administration, for example, under the First Nations Fiscal Management Act (FMA) or their own legislative and law-making framework. A financial administration law under the FMA includes provisions respecting investing, borrowing, spending, resource raising and other financial decision making. It indicates that, for example, the governing body of an Indigenous government must have an investment management strategy and a borrowing policy, and all investing and borrowing must be in accordance with those strategies and policies. When reporting on non-compliance, Indigenous governments would report non-compliance against the requirements contained in any applicable law respecting financial administration, including those relating to investing, borrowing, resource raising and other financial decisions.

New Objective 6: Disclosing Risks and Uncertainties

BC6.28 Meeting new Objective 6 requires disclosures about risks and uncertainties that could affect an entity's financial position or changes in financial position as reported in its financial statements. The assertion is that financial statements that are comprehensive and respond to the accountability objective require presenting the risks and uncertainties to which an entity is exposed.

BC6.29 One reason for introducing Objective 6 is to ensure the proposed Conceptual Framework, specifically the financial statement objectives, explains the link between disclosure of risks and uncertainties and meeting the accountability objective. The existing financial statement objectives do not capture this aspect of accountability. The proposed Conceptual Framework should also be aspirational and long lasting and consider future risks and uncertainties not currently dealt with in the standards.

12 In its Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework," PSAB proposes to rename "Introduction to Public Sector Accounting Standards" as "Introduction to the Public Sector Handbook" because this introduction applies to both the proposed Conceptual Framework and the standards.

BC6.30 Various standards in the PSA Handbook (e.g., FINANCIAL INSTRUMENTS, Section PS 3450, and CONTINGENT LIABILITIES, Section PS 3300) require the disclosure of risks and uncertainties. The proposed financial statement objective is limited to disclosing those risks and uncertainties that could affect an entity's financial position or changes in financial position. It is not intended to require disclosure of those risks and uncertainties that are better suited for disclosure outside the financial statements; for example, in an entity's Financial Statement Discussion and Analysis (FSD&A).[13]

BC6.31 For the time being, PSAB does not intend to add requirements in addition to those currently in the PSA Handbook (e.g., the financial risks reflected in Section PS 3450 or the uncertainty reflected in Section PS 3300). However, in the future, the objective may lead to the Board requiring additional risk and uncertainty disclosures that would be detailed at the standards level (i.e., in a standard that is being developed). The decisions with respect to additional requirements would only be made following the appropriate due process.

BC6.32 A few respondents to the Statement of Concepts noted that the objective may lead to information overload in the future. Information overload is a serious concern that many standard setters, including PSAB, specifically contemplate in their work. As it develops standards in the future that may require the disclosure of certain risks and uncertainties, the Board will determine if the disclosures provide additional accountability value for users. Presentation techniques described in Chapter 10 could help in organizing the disclosures to ensure they are understandable and at the right level to provide accountability.

Guidance in relation to the objective

BC6.33 Some respondents to the Statement of Concepts expressed concern with the lack of guidance in the objective. The purpose of this objective, and all the other financial statement objectives, is to foreshadow what would be reported in financial statements. As a result, all financial statement objectives will appear broad. The intent is to allow the proposed Conceptual Framework, of which the financial statement objectives form part, to be aspirational and long lasting. However, the details of how the objective would be met is provided in the various standards in the PSA Handbook.

Development of risk disclosure requirements related to natural assets and the "infrastructure gap"

BC6.34 Many respondents to the Statement of Concepts encouraged PSAB to develop risk disclosure requirements related to natural assets. Others encouraged development of risk disclosures related to the "infrastructure gap."

BC6.35 The development of risk disclosures in addition to what is currently in the PSA Handbook is outside the scope of the Concepts Underlying Financial Performance project. However, PSAB will include the topics suggested in its next project priority survey.

BC6.36 ASSESSMENT OF TANGIBLE CAPITAL ASSETS, Statement of Recommended Practice (SORP) 3,[14] provides general guidance for those entities that choose to report on the physical condition of their tangible capital assets, in an effort to provide information outside financial statements that can shed light on the risks related to an "infrastructure gap."

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13 The main objective of an FSD&A is to clearly explain and highlight information underlying the statements of financial position and changes in financial position as presented. FSD&A information also includes narrative explanations and graphical illustrations highlighting the key relationships that exist among the quantitative representations set out in the financial statements, as well as explanations and illustrations of variances and trends. Refer to FINANCIAL STATEMENT DISCUSSION AND ANALYSIS, SORP-1, for guidance in reporting FSD&A. SORPs are non-authoritative pronouncements.

14 PSAB issues SORPs with respect to matters of reporting supplementary information beyond that presented in financial statements, after following a due process. SORPs represent reporting practices that are encouraged but not mandatory or prescriptive.

CHAPTER 7: FINANCIAL STATEMENT INFORMATION: QUALITATIVE CHARACTERISTICS AND RELATED CONSIDERATIONS

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Background

BC7.01 Chapter 7 focuses on the qualitative characteristics of financial information (relevance, faithful representation, verifiability, comparability, understandability and timeliness) and the related considerations for including information in financial statements (benefit versus cost, materiality and prudence).

BC7.02 The qualitative characteristics of financial information and the related considerations were exposed in the Statement of Concepts. PSAB’s intent with the proposals was to clarify the qualitative characteristics to be more transparent and better oriented to the accountability needs of public sector users. The guidance provided aimed to ensure that the practical realities are considered when applying the qualitative characteristics and related considerations.

BC7.03 There was significant support for what was proposed in the Statement of Concepts. Many respondents felt that the description of the qualitative characteristics and related considerations was an improvement over that in the existing conceptual framework. As a result, there is very little change from what was included in the Statement of Concepts.

Comparing the Proposals with the Existing Conceptual Framework

BC7.04 The major changes proposed to the qualitative characteristics and related considerations in comparison to the ones in the existing conceptual framework include:

(a) replacing “reliability” with “faithful representation”;

(b) removing “conservatism” as an aspect of a qualitative characteristic and adding “prudence” as a related consideration;

(c) identifying “verifiability” and “timeliness” as separate qualitative characteristics;

(d) explaining the application of “comparability” in the public sector, with specific reference to actual-to-budget comparisons;

(e) emphasizing the “understandability” qualitative characteristic;

(f) adding “materiality” and “prudence” as additional considerations when applying the qualitative characteristics; and

(g) removing “accountability value” as an aspect of relevance.

Why replace “reliability” with “faithful representation”

BC7.05 The existing conceptual framework lists reliability as a qualitative characteristic. Reliability has the following characteristics:

(a) representational faithfulness;

(b) completeness;

(c) neutrality;

(d) conservatism; and

(e) verifiability.

Both completeness and neutrality refer to faithful representation.

BC7.06 PSAB considered two options with respect to this qualitative characteristic:

(a) keep “reliability” as is; or

(b) replace “reliability” with “faithful representation”.

Recent work conducted by other standard setters has informed the decision to propose replacing “reliability” with “faithful representation”.

BC7.07 The research of other standard setters, such as the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB), indicates that faithful representation is easier to understand and apply than reliability. Reliability is sometimes confused with verifiability or narrowly interpreted to mean precision. The intent of the proposed qualitative characteristic of faithful representation is to ensure that the information provided in financial statements reflects as faithfully, completely, neutrally and accurately as possible the economic substance of an economic resource, economic obligation, transaction or other event, because these attributes best contribute to the accountability value of the related information.

BC7.08 In proposing the change to “faithful representation”, PSAB concluded that “faithful representation” would better accomplish the intent of the characteristic than would “reliability”.

BC7.09 A concern was expressed to IPSASB during its Conceptual Framework project that the choice of "faithful representation" over "reliability" implies the adoption of fair value or market value accounting. However, like the IPSASB, PSAB does not intend that the use of "faithful representation" or "reliability" to describe a qualitative characteristic in the proposed Conceptual Framework will determine the measurement attribute to be used in financial statements, whether historical cost, market value, fair value or any other.

Why remove "conservatism" as an aspect of a qualitative characteristic

BC7.10 The existing conceptual framework includes conservatism as an aspect of the qualitative characteristic "reliability." The related guidance indicates that conservatism does not encompass the deliberate understatement of revenues and assets or the deliberate overstatement of liabilities and expenses. Although this description of conservatism may sound like it advocates neutrality, in practice, conservatism tends to mean a preference that possible errors in measurement be in the direction of an understatement of revenues and assets and an overstatement of liabilities and expenses. This application introduces a bias into financial statements that conflicts with the neutrality aspect of faithful representation.

BC7.11 The explanatory guidance for neutrality emphasizes freedom from bias in information reported and indicates that incomplete financial statements are biased, as are financial statements that include assets, liabilities, revenues or expenses that are deliberately understated or overstated or in which accounting principles have been chosen with a particular result or the interests of particular users in mind.

BC7.12 Financial statements that are biased in any way encourage deliberate understatement or overstatement of results and may be seen to provide less accountability. Neutrality is an aspect of financial statement reporting that seeks to provide effective and credible accountability. Adopting a practice of neutrality when making estimates in financial statements is an appropriate and defensible approach for public sector entities because they face public scrutiny of their results.

BC7.13 PSAB proposes to resolve the conflict between neutrality and conservatism through:

(a) the removal of "conservatism" as an explicit component of a qualitative characteristic; and

(b) the emphasis on neutrality as a component of faithful representation.

BC7.14 Although the concept of conservatism is being removed as an aspect of a qualitative characteristic, PSAB is introducing the concept of prudence as a consideration in applying the qualitative characteristics in determining the nature and extent of the information to be included in financial statements. Refer to the section "Why 'materiality' and 'prudence' are considerations" for more information.

BC7.15 A few respondents to the Statement of Concepts wondered what the implication of removing conservatism would be on certain standards in the PSA Handbook. Although the conservatism concept was considered in the development of some standards (such as Section PS 3300 and CONTINGENT ASSETS, Section PS 3320) removing the term would not lead to an amendment to these standards. During the development of the standards, PSAB made its decisions based on whether the information that is required from the standard would improve accountability, considering all the qualitative characteristics and element definitions.

Why identify "verifiability" and "timeliness" as separate qualitative characteristics

Verifiability

BC7.16 The existing conceptual framework identifies verifiability as a component of reliability. However, in practice, information may be verifiable without actually being reliable. For example, in relation to measurement, verifiability focuses primarily on the correct application of a basis of measurement rather than its appropriateness.

BC7.17 In the proposed Conceptual Framework, PSAB proposes to replace "reliability" with "faithful representation". While closely linked to faithful representation, the Board thinks that verifiability is separate from faithful representation because:

(a) information may faithfully represent economic resources, economic obligations, transactions and other events even though it cannot be verified; or

(b) information may be verifiable without faithfully representing the economic resource, economic obligation, transaction and other event that it purports to represent.

As a result, verifiability is identified as a separate qualitative characteristic.

Timeliness

BC7.18 The existing conceptual framework identifies timeliness as a component of relevance. PSAB proposes to elevate timeliness as a separate qualitative characteristic:

(a) Timeliness is different from the other components of relevance. Whereas something that has predictive value or confirmatory value is relevant, information can be reported in a timely manner and have no relevance at all, or information can be delayed in reporting and still be relevant.

(b) Timeliness is linked to other qualitative characteristics, not just relevance. For example, timely information is useful if it is relevant and faithfully represented.

BC7.19 To hold an entity accountable, a user requires timely information.

Why identify an additional aspect of comparability specific to the public sector

BC7.20 Respondents to the three Consultation Papers have specified the significance of the budget and the importance of the comparison of actual performance against the budget to the accountability cycle in the public sector. To emphasize this importance, PSAB proposes to add this aspect to the comparability qualitative characteristic. The intent is that this fundamental part of the accountability cycle be emphasized throughout the proposed Conceptual Framework.

Why emphasize "understandability"

BC7.21 The existing conceptual framework identifies understandability (and clear presentation) as a separate qualitative characteristic of information to be included in financial statements. However, understandability is not given much profile. Accountability is best achieved when those to whom an entity is accountable understand the financial statement information provided to them. The information presented might be relevant to achieving accountability or relevant to decision making, but unless it is understood, it cannot be used for those purposes. Ideally, public accountability means that the public understands what is being reported and can assess the extent to which accountability has been achieved, perhaps with some help. This "understandability imperative" is inextricably linked to the accountability objective. As a result, PSAB's intent is to encourage greater understandability of financial statement information for users. Consequently, further emphasis is placed on the understandability characteristic in the proposed Conceptual Framework as compared to the existing conceptual framework.

Why "materiality" and "prudence" are considerations

Materiality

BC7.22 PSAB concluded that materiality is not only an aspect of a qualitative characteristic. It has a more pervasive role. Materiality relates to, and can impact, several qualitative characteristics of information included in the financial statements. An item's materiality would be considered when determining whether its omission or misstatement could undermine not only relevance but also the faithful representation, understandability or verifiability of financial information presented in the financial statements.

Prudence

BC7.23 Recent work by international standard setters has partly informed the decision to introduce prudence. They linked prudence with making unbiased estimates, since exercising prudence means not deliberately overstating or understanding assets, revenues, liabilities or expenses. As a result, they have indicated that prudence is a factor in faithfully representing economic resources, economic obligations, transactions and other events.

BC7.24 After careful consideration, PSAB feels that the concept of prudence is broader than just ensuring unbiased estimates. The Board concluded that prudence is integral to the professional state of mind of accounting and assurance practitioners rather than merely a quality of financial information. Prudence is an orientation that underlies the Conceptual Framework and the PSA Handbook. For example, it is woven into the definitions of the elements, the general recognition and measurement concepts in the framework, and the principles found in individual standards. Prudence is inherent in the application of professional judgment. As a result, the Board concluded that prudence should be a consideration in applying the qualitative characteristics when determining the nature and extent of information to be included in financial statements, rather than a component of a qualitative characteristic.

Why remove "accountability value" as an aspect of relevance

BC7.25 Accountability is the underlying theme of the proposed Conceptual Framework and the overarching objective of public sector financial reporting. As a result, accountability is broader than just a component of a qualitative characteristic. For this reason, accountability value was removed as a component of relevance.

No Explicit Order of Application of the Qualitative Characteristics

BC7.26 When reviewing the qualitative characteristics, PSAB considered whether some characteristics should be identified as fundamental and others as enhancing. The Board also considered whether an order of application of the characteristics should be identified and explained.

BC7.27 PSAB concluded that all the qualitative characteristics are important and contribute to the information's usefulness to the public for accountability purposes. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as always having only an enhancing or supporting role, or to specify a fixed sequence of their application.

Conservatism and Prudence

BC7.28 A few respondents to the Statement of Concepts have asked PSAB to articulate the distinction between conservatism and prudence.

BC7.29 Paragraph PS 1000.29(d), states that

> estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

BC7.30 Although this description of conservatism may sound like it advocates neutrality, in practice, conservatism tends to mean a preference for an understatement rather than overstatement of revenues and assets and an overstatement rather than an understatement of liabilities and expenses. This application introduces a bias into financial statements that conflicts with the neutrality aspect of faithful representation (conservative accounting).

BC7.31 Exercising prudence means not overstating or understating assets, liabilities, revenues and expenses. Prudence attempts to emphasize neutrality by avoiding the dangers of an optimistic bias, and equally the damaging implications of a negative bias.

BC7.32 Further, as set out in paragraph BC7.24, prudence is considered to be a state of mind and orientation broader than a qualitative characteristic of financial information; conservatism is a narrower concept, potentially more biased in application.

CHAPTER 8: ELEMENTS OF FINANCIAL STATEMENTS

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Background

BC8.01 Chapter 8 identifies and defines the elements of financial statements:

(a) assets;

(b) liabilities;

(c) revenues; and

(d) expenses.

BC8.02 In the Statement of Concepts, PSAB proposed improvements to the asset, liability, revenue and expense definitions, including making them singular and adopting a parallel structure. There was significant support from respondents to the Statement of Concepts for the proposed definitions.

BC8.03 In the Statement of Concepts, PSAB also confirmed the following:

(a) Only economic phenomena are to be reported in an entity's financial statements. Economic phenomena take the form of economic resources and economic obligations and changes in them. The elements of financial statements are defined in terms of economic phenomena.

(b) Net assets or net liabilities is a residual amount, not an element.

(c) Deferred inflows and deferred outflows that do not meet the definition of an asset or liability should not be recognized in the financial statements.

(d) "Other resources" and "other obligations" should not be concepts in the proposed Conceptual Framework. The understandability imperative that flows from the accountability objective supports an approach that reports financial position as comprising only assets and liabilities, terms the public understands.

BC8.04 PSAB has relocated the definitions of financial assets and tangible capital assets to the proposed financial statement presentation standard in Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202." These are categories of assets and not elements of financial statements.

Respondents' Comments

BC8.05 A few respondents to the Statement of Concepts encouraged PSAB to reconsider its position on not identifying "net assets or net liabilities" as an element, as well its decisions to exclude deferred inflows and deferred outflows, and "other resources" and "other obligations" from the proposed Conceptual Framework.

BC8.06 Some respondents to the Statement of Concepts also provided recommendations for PSAB's consideration, including:

(a) clarify the accounting for capital contributions;

(b) identify what would happen to standards that include requirements not consistent with the proposed elements;

(c) add definitions of economic resources and economic obligations;

(d) add an ownership element or reflect the existence of ownership in the proposed Conceptual Framework or reporting model; and

(e) clarify the acceptability of rate-regulated assets and liabilities.

Why Deferrals Are Not Elements

BC8.07 PSAB considered deferrals in response to some stakeholder concerns. In considering deferrals, the Board identified three options:

(a) defining deferred inflows and deferred outflows as separate elements;

(b) broadening the asset and liability definitions to include items that are deferrals; or

(c) not including deferred inflows and deferred outflows in the proposed Conceptual Framework.

BC8.08 Consultation Paper 2 requested feedback on some of these options by proposing three possible reporting models (i.e., the asset and liability model, the revenue and expense model and a hybrid model). Specifically, both the revenue and expense and hybrid models introduced the concept of deferred inflows and deferred outflows. The revenue and expense model defined them as elements and the hybrid model identified them as components of net assets or net liabilities. The option of exploring broader asset and liability definitions to include items that are deferrals was not pursued. It was considered important for the definitions to be substantially consistent with those used by other standard setters.

BC8.09 Of the three reporting models illustrated in Consultation Paper 2, a majority of respondents endorsed an asset and liability–based model. However, even some who indicated that they prefer an asset and liability–based model noted that the asset and liability definitions themselves or other aspects of the reporting model should allow some deferral (matching), in particular, in relation to transfers received. It should also be noted that the responses at the provincial government level were mixed in relation to the reporting model alternatives, while responses at the local and federal government levels strongly supported an asset and liability–based model.

BC8.10 Most respondents did not endorse the revenue and expense model for various reasons, including:

(a) it is difficult to develop a solid, objective and consistent basis for deferring inflows and outflows to future periods;

(b) the public understands assets and liabilities and changes in them (revenue and expense); and

(c) accounting creations like deferrals would confuse the accountability for financial position and periodic financial performance provided through the financial statements.

BC8.11 There was also very little support for the hybrid model as it was considered too complex and, therefore, would detract from the understandability of the financial statements.

BC8.12 The public and its elected or appointed representatives understand assets and liabilities. They hold assets and liabilities themselves in the form of cars, investments, houses, mortgages and credit card debt. They can be exposed to foreign currency risk, such as when they take vacations abroad, and are familiar with changes in their investment portfolio resulting from market valuations. They also understand what the changes in assets and liabilities mean. Since financial statements are prepared for the public and its elected or appointed representatives, they will therefore be more understandable to those users when the financial position and periodic financial performance of an entity is reported in terms of assets, liabilities and changes in them.

BC8.13 Under an asset and liability–based model, the elements of financial statements are limited to economic phenomena (assets and liabilities) and changes in them (revenue and expense). Their nature can be understood and explained and, therefore, they can be effectively employed for providing accountability information to the public and its elected or appointed representatives.

BC8.14 The understandability imperative that flows from the accountability objective supports an approach that reports financial position and periodic financial performance in terms that the public already understands. Accountability is not achieved when those to whom an entity is accountable cannot understand the financial statement information provided to them.

BC8.15 An entity's finances are more complex than those of individuals. Entities do things that individuals do not. So, entities cannot and should not recognize only items that resemble those of an individual. However, to improve accountability, entities should represent and explain their financial position and periodic financial performance using building blocks that are familiar to the public, such as assets, liabilities and changes in them.

BC8.16 PSAB concluded that deferred inflows and deferred outflows that do not meet the definition of an asset or liability should not be recognized in financial statements. However, the Board acknowledges in Chapter 6, "Financial Statement Objectives," that certain revenues and/or expenses arising in a period may be recognized outside of that period's surplus or deficit, directly in a component of net assets or net liabilities. The Board felt that this approach would better contribute to public understanding of financial position as comprised solely of assets and liabilities. The Board concluded that this approach is a question of presentation on the financial statements rather than a question of introducing new elements. As the objective of Chapter 8 is to define the elements, the presentation of the elements in financial statements is discussed in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

BC8.17 In developing the Exposure Draft, "A Revised Conceptual Framework for the Canadian Public Sector," PSAB reconfirmed its position on deferred inflows and deferred outflows.

Why Net Assets or Net Liabilities Is a Residual Amount Rather Than an Element

BC8.18 In determining whether net assets or net liabilities should be defined as an element, several options were considered:

(a) Retaining the PSA Handbook status quo. This approach means that there would be no net assets or net liabilities element.

(b) Not defining net assets or net liabilities as an element but defining ownership contributions and ownership distributions as elements. The IPSASB takes this approach.

(c) Defining net assets or net liabilities as an element that is a residual amount but includes an ownership interest. Part III of the CPA Canada Handbook – Accounting, Accounting Standards for Not-for-Profit Organizations, takes this approach.

(d) Defining one or more components of net assets or net liabilities as elements.

(e) Having different alternatives for governments and government organizations tailored to the type of accountability that the users of financial statements require. For example, the users of the financial statements of government organizations using not-for-profit accounting may expect additional accountability for resource flows unique to that type of organization.

BC8.19 PSAB decided to retain the status quo for the following reasons:

(a) Net assets or net liabilities is a residual amount, calculated as the difference between two types of elements: assets and liabilities. It is also a residual because it results solely from the accumulated difference between the revenues and expenses of the past.

(b) Ownership interests are rare or minimal in the public sector (see Chapter 2, "Characteristics of Public Sector Entities"). The existence of rare ownership interests should not drive the development of concepts in the proposed Conceptual Framework.

(c) Defining one or more components of net assets or net liabilities as elements contradicts the idea of elements as the most basic building blocks of financial statements. Elements may have subcategories (e.g., financial and non-financial assets), but elements cannot be subcategories of something else.

(d) PSAB concluded that there should be one Conceptual Framework and a benchmark set of accounting and financial reporting standards (i.e., GAAP) set out in the PSA Handbook. Any differentiation from this benchmark for particular types or sizes of public sector entities would be a separate decision of PSAB. These core requirements would not restrict an entity from providing supplemental presentations and disclosures to meet its stakeholders' additional accountability needs. Chapter 10, "Presentation Concepts for Financial Statements," provides the criteria to consider when determining whether supplemental presentations and disclosures are appropriate. For example, entities that determine that a supplemental breakdown of net assets or net liabilities (in addition to that being proposed in the new reporting model) is necessary for the entity to meet management needs or other accountabilities, would have the option to provide such a breakdown in the notes.

BC8.20 A few respondents to the Statement of Concepts encouraged PSAB to reconsider its decision on this matter. The Board did reconsider, and it reconfirmed the decision that net assets or net liabilities would not be elements of financial statements.

BC8.21 Defined as, or considered, a residual amount does not mean that net assets or net liabilities is meaningless. It provides a measure of the net economic resources available to, or owing by, an entity at a point in time. It is a measure of the entity's financial position at a point in time that provides information useful in evaluating the sustainability of the entity and its ability to serve the public in the future.

BC8.22 Even though net assets or net liabilities is not an element, PSAB can still divide it into components, as a residual can be made up of various parts. The various components help users understand the nature of net assets or net liabilities.

BC8.23 Even though neither net assets nor net liabilities is an element, PSAB can recognize revenues and expenses directly in a component of net assets or net liabilities. If net assets or net liabilities was an element, then the proposed reporting model would not theoretically work. Elements may have subcategories (e.g., financial and non-financial assets), but elements cannot be subcategories of something else.

Including "Other Resources" and "Other Obligations" in the Proposed Conceptual Framework

BC8.24 In developing the Statement of Concepts, PSAB reviewed IPSASB's conceptual framework. IPSASB introduced "other resources" and "other obligations" as categories forming part of an entity's financial position. PSAB chose not to adopt these categories. The understandability imperative that flows from the accountability objective supports an approach that reports financial position and periodic financial performance in terms that the public already understands; that is, assets, liabilities and changes in them.

BC8.25 However, PSAB proposed the concept of direct recognition of revenue or expense in components of net assets or net liabilities. The Board felt that this approach responds to the same issues that prompted the IPSASB to create the "other resources" and "other obligations" categories; the need for tools to address complex accounting issues. PSAB felt that this approach would better contribute to public understanding of financial position as comprised solely of assets and liabilities, while still acknowledging that some revenue and expense of an accounting period might be recognized outside of the surplus or deficit of the period.

BC8.26 In developing the Exposure Draft, PSAB reconfirmed its position.

Clarifying the Accounting for Capital Contributions

BC8.27 The accounting for capital contributions can be found in:

(a) GOVERNMENT TRANSFERS, Section PS 3410;

(b) RESTRICTED ASSETS AND REVENUES, Section PS 3100, for capital contributions to buy or build a tangible capital asset[15] received from individuals or entities other than a government, government component or government organization; and

(c) CONTRIBUTIONS – REVENUE RECOGNITION, Section PS 4210, for those entities applying the PS 4200 series of the PSA Handbook.

BC8.28 Accounting for capital contributions received is a standards-level issue and so is outside the scope of the conceptual framework and reporting model review.

Review of Section PS 3410

BC8.29 PSAB recognized the need to review Section PS 3410 and the accounting for capital transfers, based on the feedback it had received since the issuance of the standard. In November 2014, the Board issued the Request for Information, "Post-implementation Review: Section PS 3410, Government Transfers." In April 2016, the Board issued the Feedback Statement that summarizes its findings.

BC8.30 The Feedback Statement noted that the most contentious issue raised was recipient accounting for capital transfers. Section PS 3410 requires that transfer revenue be recognized when the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability. That is, when the stipulations in a transfer, or the recipient's actions and communications together with the stipulations in a transfer, create an obligation that meets the liability definition in LIABILITIES, Section PS 3200. Based on the feedback received, PSAB explored whether an authoritative accounting guideline would help clarify interpretations of Section PS 3410.

BC8.31 In August 2016, PSAB stated its intention to keep the government transfers standard as is, in the PSAB Matters Article, "Staying the Course on Government Transfers." In the article, the Board notes the following:

> During the development of Section PS 3410, there were two schools of thought on recipient accounting for capital transfers:
>
> - Some believe revenues should be recognized once the related asset has been acquired or built.
> - Others believe revenue should be recognized over the useful life of the related asset.
>
> …. Flexibility was added to the standard to allow for both scenarios. It was designed to allow the terms of each transfer agreement alone or, in addition to a recipient's own actions and communications, to drive the accounting treatment.
>
> Both scenarios require that the liability definition be met, taking into account the requirements of Section PS 3200, *Liabilities*.
>
> ….

15 Revenue recognition would occur as the financial resources received are used for the purposes specified. That is, as the tangible capital asset is bought or built. Revenue recognition over the useful life of the related asset or for periods beyond which the asset has been bought or built would not be permitted by Section PS 3100.

> We [PSAB] note that this is a problem Canada shares with the world. Other public sector standard setters also struggle with the treatment of government transfers. They face the same trade-off as we did when developing Section PS 3410. A standard that contains some flexibility on this issue may diminish comparability but can facilitate decision-useful information across the public sector.
>
> We spent a great deal of time considering whether there was a way to improve consistency through an authoritative Guideline. As the standard was written with flexibility in mind, this was difficult to achieve. Eliminating flexibility through a Guideline could result in overriding the standard. Such an action is not consistent with our due process.

The PS 4200 series of the PSA Handbook

BC8.32 Some government not-for-profit organizations apply the PSA Handbook plus the PS 4200 series. This series of standards includes Section PS 4210 that, among other things, specifies the accounting for restricted contributions, such as those related to capital and endowments.

BC8.33 Any decisions related to these standards will be made through PSAB's Government Not-for-Profit Strategy project.

Standards Inconsistent with the Conceptual Framework

BC8.34 Some standards in the PSA Handbook include "deferrals" that do not meet the definition of an asset or liability. These standards are inconsistent with the conceptual framework. These inconsistencies have arisen over time. The inconsistencies were developed for pragmatic reasons, reflecting the stage of the evolution of practice in the public sector. Some inconsistencies were created before a formal conceptual framework was in place. Inconsistencies arising after approval of the existing conceptual framework would have been debated and approved by PSAB but not necessarily documented. The Board is aware of these inconsistencies and is reviewing some of them:

(a) through existing projects on its technical agenda; or

(b) by determining whether the inconsistencies should be part of the next project priority survey that would direct the Board's future technical agenda.

BC8.35 PSAB expects that future inconsistencies with the proposed Conceptual Framework will be rare, and when the Board allows and approves them, they will be substantively justified. Documentation of the reasons will be required in an accompanying basis for conclusions document. Departures from the proposed Conceptual Framework are appropriate only if needed to meet the financial reporting objective: to provide information for accountability purposes.

Defining "Economic Resources" and "Economic Obligations"

BC8.36 Given the significant number of references to "economic resources" and "economic obligations" in the proposed Conceptual Framework, PSAB concluded that it may be helpful to include definitions of "economic resources" and "economic obligations" in the proposed Conceptual Framework that are consistent with the guidance provided in Section PS 3200 and Section PS 3210. These definitions are included in the Glossary that forms part of this Exposure Draft. After the Board issues the revised Conceptual Framework and reporting model pronouncements, the Glossary that forms part of this Exposure Draft will be included in a new Glossary for the PSA Handbook to be issued in the future.

Adding Ownership Interest as an Element

BC8.37 In developing the Statement of Concepts, PSAB considered including ownership contributions and ownership distributions as elements, as noted in paragraph BC8.18, but decided against doing so for the following reasons:

(a) Differentiating between ownership contributions and government transfers for many public sector entities was problematic.

(b) Ownership distributions and ownership contributions are rare in the public sector, except in relation to government business enterprises (GBEs),[16] and by including them in the proposed Conceptual Framework, they would be given undue prominence.

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

BC8.38 Many of these reasons are similar and consistent with the reasons for not identifying net assets or net liabilities as an element, as indicated in paragraph BC8.19.

BC8.39 In developing the Exposure Draft, PSAB confirmed its original thinking. However, it concluded that identifying the resources attributable to owners provides useful accountability information for those entities that have equity ownership arrangements. As such, it is important to recognize them in some way.

BC8.40 In Chapter 6, "Financial Statement Objectives," the proposed Conceptual Framework signals that some items can be recognized directly in a component of net assets or net liabilities. Only PSAB can identify the components of net assets or net liabilities. For those public sector entities that have equity ownership interests, such as share capital, the Board decided to recognize their existence in a component of net assets or net liabilities, called "share capital." This component is recognized in the proposed reporting model standard in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

BC8.41 In determining whether a transaction is "share capital" or something else, such as a government transfer or a loan, the substance of the transaction must be carefully reviewed. As indicated in Chapter 7 of the proposed Conceptual Framework, "substance over form" is an aspect of faithful representation, a qualitative characteristic of financial information.

Rate-Regulated Assets and Liabilities

BC8.42 PSAB is aware that some stakeholders have issues with the use of rate-regulated accounting in the public sector. As a result, the Board has committed to monitor the progress being made on the IASB's project on rate-regulated activities. In its Annual Plan, PSAB has committed to providing a response to the IASB's Exposure Draft on rate-regulated accounting.

BC8.43 Clarifying the acceptability of rate-regulated assets and liabilities is outside the scope of the Concepts Underlying Financial Performance project. This complex area of accounting is a standards-level issue that requires significant research and stakeholder consultation before conclusions for the Canadian public sector can be reached.

16 The "Introduction to Public Sector Accounting Standards" requires GBEs to apply the Conceptual Framework and the standards in Part I of the CPA Canada Handbook – Accounting.

Asset and Liability Definitions

Why retain "expectation" in the asset and liability definitions

BC8.44 Consultation Paper 3 suggested replacing the notion of "expectation" in the asset and liability definitions with the notion that an asset (or a liability) is capable of generating economic benefits (or sacrificing/using economic resources). This was consistent with the asset (and liability) definition of the IASB and IPSASB. Many respondents stated that PSAB should retain the notion of "expectation of obtaining or sacrificing/using future economic benefits" in the definitions. They argued that defining an asset as being "capable of providing future economic benefits" or defining a liability as "can result in the future sacrifice of economic resources" would considerably widen the range of items that would be identified as assets and liabilities. This approach could lead to:

(a) pressure to identify every possible asset and liability, imposing a significant operational burden, for little benefit if ultimately the asset or the liability is not recognized or is measured at nil;

(b) a presumption that, in principle, all assets and liabilities should be recognized even if the future economic benefit is not expected to be obtained or the future sacrifice of economic benefit is not expected; and

(c) pressure for irrelevant disclosure about unrecognized assets and liabilities that are not expected to be realized.

BC8.45 The intent of the proposal in Consultation Paper 3 was not to increase the items considered to be assets and liabilities or create the consequences identified by respondents. The intent was to:

(a) remove an existing redundancy between the element definitions and the general recognition criteria; and

(b) leave the parameters that determine which assets and liabilities are recognized in financial statements to the general recognition criteria.

BC8.46 Based on the feedback received, PSAB decided to retain "expectation of realization" in the asset and liability definitions. This is a pragmatic choice. Removing the existing redundancy between the asset and liability definitions and the recognition criteria, while theoretically sound, is unlikely to add value, but likely to add an unnecessary reporting burden.

Implication for PSAB's international strategy

BC8.47 PSAB's proposed asset and liability definitions differ from IPSASB's. PSAB's proposed definitions refer to the "expectation" of receipt or sacrifice of future economic benefits. The IPSASB's definitions do not.

BC8.48 The implication of this difference is that applying the IPSASB's definitions may result in more items that will meet the definition of an asset or a liability. However, the general recognition criteria in the IPSASB conceptual framework may further narrow what is actually recognized. So, it is probable that similar assets and liabilities would be recognized in financial statements under the existing IPSASB and PSAB's proposed conceptual frameworks.

BC8.49 Since PSAB has chosen Option 2 (adapt IPSAS principles when developing future standards) as its international strategy, the Board's proposed Conceptual Framework would continue as the foundation for Canadian public sector GAAP. So, a departure from principles in an individual IPSAS would be required if they conflict with the Board's proposed Conceptual Framework. If, under the IPSAS, an item would be recognized as an asset that would not meet the definition of an asset in the Board's proposed Conceptual Framework because there is a low expectation of realization of future economic benefits, then this would create a departure from adopting IPSAS principles.

Improvements to the asset and liability definitions

BC8.50 The Statement of Concepts proposed amendments to the asset and liability definitions. The existing asset and liability definitions have been modified to be singular and constructed in a parallel fashion.

BC8.51 The asset definition has been amended as follows:

> An asset~~s are~~ is a present economic resource~~s~~ controlled by ~~a government~~ an entity as a result of past ~~transactions or~~ events and from which future economic benefit is expected to be obtained.

BC8.52 The liability definition has been amended as follows:

> ~~Liabilities are~~ A liability is a present economic obligation~~s~~ of ~~a government~~ an entity to others ~~arising from~~ as a result of past ~~transactions or~~ events, the settlement of which is expected to result in ~~the~~ a future sacrifice of economic benefit.

BC8.53 The main difference between the existing asset definition and that being proposed is the addition of "present" in front of "economic resource". "Present" refers to the existence of the economic resource at the financial statement reporting date. The intention is to make the asset definition more precise. Using "present" to indicate existence of an economic resource at the reporting date does not necessarily mean that the asset can be used to settle liabilities at that date.

BC8.54 Only present economic resources can meet the definition of an asset. Possible economic resources, such as contingent assets, or future economic resources, such as contractual rights, cannot meet the definition of an asset.

BC8.55 The main difference between the existing liability definition and that being proposed is the addition of "economic" in front of "obligation". "Economic" was inserted to refer to the nature of the obligation. The intention is to make the liability definition more precise.

BC8.56 As a result of these changes, each definition reflects:

(a) the present nature of the resource or obligation;

(b) the economic nature of the present resource or obligation;

(c) the association of the present economic resource or economic obligation with the entity; and

(d) the expectation of the present economic resource or economic obligation of the entity to provide economic benefit to or require sacrifice of economic benefit from the entity.

BC8.57 "Transactions" has been removed from the definitions as it is a subset of "events".

BC8.58 These revisions are proposed to make the similarities and differences in the definitions clearer and assist in their application. No change in the substance of the definitions is intended by PSAB.

BC8.59 As a result of these changes, consequential amendments are being proposed in the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework," to Sections PS 3200 and PS 3210 to allow the asset and liability definitions to be consistent with those proposed in the Conceptual Framework.

BC8.60 There was overwhelming support for the proposed asset and liability definitions from respondents to the Statement of Concepts. A respondent did encourage PSAB to make the asset and liability definitions even more concise (such as removing references to expectation of receiving future economic benefits or sacrificing economic benefit). The Board wants the asset and liability definitions to stand on their own. As a result, even though the definitions could be more concise, the Board left all the necessary components in the definitions that allowed them to stand on their own.

Guidance Related to the Asset and Liability Definitions

BC8.61 Both the IASB and IPSASB have provided guidance in relation to assets and liabilities in the elements chapter of their conceptual frameworks. In the PSA Handbook, the detailed guidance for assets and liabilities (such as what past events are) is found in individual general application standards (i.e., Sections PS 3200 and PS 3210) rather than the proposed Conceptual Framework. This approach emphasizes the requirement for all items that meet the definition of an asset or liability to be recognized in the financial statements regardless of whether a specific PSA Handbook standard exists. Paragraph 9.06 in Chapter 9, "Recognition and Measurement," also explains this requirement.

Revenue and Expense Definitions

BC8.62 In establishing the project, no major issues were identified with the definitions of revenue and expense in the PSA Handbook. However, since the project's mandate is to consider the concepts underlying financial performance, the definitions were reviewed to consider if any changes are needed.

BC8.63 Feedback from stakeholders in response to Consultation Paper 2 indicated a preference for an asset and liability–based reporting model. PSAB concluded that revenue and expense should continue to be defined only in terms of changes in assets and liabilities.

BC8.64 Based on the review of the revenue and expense definitions, in the Statement of Concepts, PSAB proposed that the definitions include the impact on net assets or net liabilities. The reference to an increase or decrease in net assets or net liabilities is required because some changes in assets and liabilities do not result in an increase or decrease in net assets or net liabilities. Some changes in assets or liabilities do not give rise to revenue or expense but instead to equal but opposite changes in other assets and liabilities. For example, debt repayments decrease assets and liabilities at the same time and in the same amount, but do not result in revenue or expense. Therefore, they do not result in any net change in net assets or net liabilities. The existing definitions do not include the impact on net assets or net liabilities. Guidance after the existing definitions excludes debt proceeds and debt repayments and other similar items, transactions or other events from being revenue and expense. The Board concluded that the revenue and expense definitions should stand on their own. As a result, the requirement for a net impact on net assets or net liabilities was added to each definition.

BC8.65 Chapter 6 alludes to the fact that not all revenues and expenses that arise during the period may be reflected in that period's surplus or deficit. Some revenues and expenses, as required by PSAB, may be reflected directly in a component of net assets or net liabilities. As a result, for example, an increase in net assets may be due to a type of revenue being recognized in net assets. The revenue definition remains appropriate as it is an increase in assets (or decrease in liabilities) that results in an increase in net assets (or decrease in net liabilities), even though the increase in net assets is the result of revenue being recognized directly in net assets. The same applies to the expense definition.

BC8.66 There have been developments, domestically and internationally, in element definitions since the existing conceptual framework was last considered. It was appropriate, therefore, to consider if any changes made by other standard setters also make sense for the public sector in Canada. Experience with the existing definitions and their application was also reviewed to assess the need for changes to the definitions. The review considered:

(a) whether the revenue and expense definitions should include gains and losses, respectively; and

(b) other general improvements.

Gains and losses

BC8.67 The existing PSA Handbook definitions of revenue and expense include gains as revenue and losses as expense. A review of other standard setters' work indicates that most do not distinguish gains from revenue or losses from expense. Gains and losses do not differ from other revenues and expenses in their substance in that they are increases or decreases in assets or liabilities that result in increases or decreases in net assets or net liabilities.

BC8.68 However, differentiating between revenue and a gain, and an expense and a loss may be done for presentation purposes. The usefulness and need for such distinctions may vary depending on the nature of the entity, its operations and its other activities. Revenue for one kind of entity may be gains for another, and losses for one kind of entity may be expense for another.

BC8.69 In the past, gains and losses were often identified as arising primarily from an entity's peripheral activities as contrasted with normal operating activities. Therefore, distinguishing gains from revenues and losses from expenses refined the reporting of results from operations. However, it may not be appropriate to identify gains and losses arising on financial instruments carried at fair value as "peripheral items," even though they are unrealized. For some entities, such gains and losses can be material and directly related to their mandate. For example, some governments concentrate management of their financial instruments primarily in one entity. The separation of revenue and expense from gains and losses, respectively, for display purposes is not an element question.

BC8.70 Element definitions should not be used to make distinctions of display or presentation. Therefore, revenues and expenses would continue to include gains and losses, respectively.

Other general improvements

BC8.71 PSAB concludes that the revenue and expense definitions should be refined by:

(a) making them singular, consistent with the asset and liability definitions;

(b) removing unnecessary detail; and

(c) constructing them in a parallel fashion as appropriate.

BC8.72 In relation to this conclusion, the following general characteristics of the revenue and expense definitions should be noted:

(a) The definitions associate the changes in assets and liabilities with the accounting period as financial statements measure financial performance on a periodic basis.

(b) The definitions need not include phrases associating them with the entity, as revenue and expense arise only from changes in assets and liabilities and the definitions of assets and liabilities associate the related economic resources and economic obligations with the entity.

(c) The definitions make specific reference to changes in net assets or net liabilities.

BC8.73 The revenue definition has been amended as follows:

> Revenue~~s~~, including a gain~~s~~, ~~are~~ is an increase~~s~~ in ~~economic resources, either by way of increases of~~ assets or a decrease~~s of~~ in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities.~~, resulting from the operations, transactions and events of the accounting period.~~

BC8.74 The expense definition has been amended as follows:

> An expense~~s~~, including a loss~~es~~, ~~are~~ is a decrease~~s~~ in ~~economic resources, either by way of decreases in~~ assets or an increase~~s~~ in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities.~~, resulting from the operations, transactions and events of the accounting period.~~

BC8.75 These revisions are proposed to make the similarities and differences in the definitions clearer and assist in their application. No change in the substance of the definitions is intended by PSAB.

BC8.76 As a result of these changes, consequential amendments are being proposed in the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework," to REVENUE, Section PS 3400, to allow the revenue definition to be consistent with that proposed in the Conceptual Framework.

BC8.77 There was overall support from respondents to the Statement of Concepts for the proposed revenue and expense definitions. A respondent encouraged PSAB to make the revenue and expense definitions even more concise by removing "in the accounting period." In developing the revenue and expense definitions, "in the accounting period" was considered necessary as revenue and expense are elements that describe changes in economic resources and economic obligations over a period of time (i.e., in the accounting period).

Importance of All Statements in the Financial Statement Package

BC8.78 Deriving revenue and expense definitions from changes in assets and liabilities does not mean that PSAB focuses solely or primarily on the statement of financial position. Financial statements are intended to provide information about an entity's financial position and periodic financial performance. When making decisions about recognition, measurement, presentation and disclosure, the Board considers whether the resulting information is useful for accountability purposes. The Board has not designated one type of information (about financial position or about periodic financial performance) as the primary focus of financial reporting.

BC8.79 Identifying revenue and expense necessarily leads to identifying which assets and liabilities have changed. Standard setters have concluded that it is more effective, efficient, internally consistent and rigorous to define assets and liabilities first, and to define revenue and expense in terms of changes in assets and liabilities. It is difficult to define revenue and expense understandably without reference to assets and liabilities. If revenue and expense are defined first, assets and liabilities then become merely by-products of recognizing revenue and expense rather than representations of economic phenomena.

BC8.80 Any definitions of revenue and expense crafted without reference to assets and liabilities are primarily conventional, not conceptual, and make periodic measurement of financial performance largely a matter of individual judgment and personal opinion. Using the asset and liability definitions as the anchor imposes limits or constraints not only on what can be included in financial position but also what can be included in financial performance.

CHAPTER 9: RECOGNITION AND MEASUREMENT IN FINANCIAL STATEMENTS

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Background

BC9.01 Chapter 9 focuses on recognition and measurement.

BC9.02 In the Statement of Concepts, PSAB proposed that the general recognition criteria and the measurement attribute remain substantively the same as in the existing conceptual framework. The Board also introduced the derecognition concept; the existing conceptual framework does not define derecognition or describe when derecognition occurs.

BC9.03 There was significant support from respondents for the recognition and derecognition concepts proposed in the Statement of Concepts. Respondents provided suggestions for improvements, such as:

(a) remove the redundancy in the general recognition criteria;

(b) consider the general recognition criteria of international standard setters;

(c) dispel the argument that the recognition criteria emphasize the statement of financial position;

(d) remove the redundancy in the derecognition criteria;

(e) include “fulfilment value” as a possible measurement attribute for liabilities in the proposed Conceptual Framework;

(f) improve the going concern discussion;

(g) reconsider the requirement of the primary measurement attribute;

(h) reconsider the location of the exclusions from recognition;

(i) reconsider removing the recognition exclusions from the PSA Handbook; and

(j) prioritize the inclusion of guidance related to the accounting for natural assets in the PSA Handbook.

Redundancy in the General Recognition Criteria

BC9.04 A few respondents to the Statement of Concepts noted that there is a redundancy between (a) and (b) of the general recognition criteria. They noted that criterion (b), which stated "for an item that involves an asset or a liability it is expected that the related future economic benefits will be obtained or sacrificed," is not required as it is considered in criterion (a), which is "the item meets the definition of an element." The definition of an element considers the expectation of obtaining or sacrificing future economic benefits.

BC9.05 In developing the criteria, PSAB recognized the redundancy. Therefore, in Consultation Paper 3, the Task Force proposed revising the asset and liability definitions to remove this redundancy. After considering input from respondents to Consultation Paper 3, the Board decided not to remove the notion in the asset and liability definitions that an inflow or outflow of future economic benefits is expected. This then retained an existing redundancy between the first two general recognition criteria. The Board concluded that removing the redundancy would not ultimately affect what was recognized in public sector financial statements but could impose a burden on stakeholders to evaluate more possible assets and liabilities.[17]

BC9.06 PSAB continues to believe that there is no harm in retaining the redundancy.

The General Recognition Criteria of Other Standard Setters

BC9.07 A respondent suggested that PSAB's general recognition criteria be more in line with the general recognition criteria of other standard setters that place emphasis on the qualitative characteristics, rather than having an "expectation threshold" for recognition.

BC9.08 In reviewing the general recognition criteria, PSAB examined the general recognition criteria of IPSASB and the IASB and considered removing the expectation threshold.

BC9.09 After careful reflection, PSAB decided to retain the existing general recognition criteria in the PSA Handbook and refine them because:

(a) they appear to be working well in the public sector in Canada; and

(b) there is no compelling need or argument to change them significantly.

BC9.10 Further, PSAB believes that application of the recognition guidance of some international standard setters would achieve similar recognition as would occur through use of an expectation threshold even if an expectation threshold is not explicitly identified.

BC9.11 The international standard setters refer to the qualitative characteristics in making recognition decisions. Although Chapter 9 does not refer to the qualitative characteristics, it is understood that the qualitative characteristics and related considerations are taken into account in determining information to be included in financial statements. Chapter 9 builds on the chapters before it in the proposed Conceptual Framework (a footnote has been added to each chapter to emphasize this logic flow and interconnectedness). Paragraph 7.01 of the proposed Conceptual Framework states:

17 Refer to paragraphs BC8.44-BC8.46 for further discussion on this matter.

Information reported in financial statements is based on the financial statement objectives, as identified in Chapter 6, "Financial Statement Objectives," and meets certain qualitative characteristics. These objectives and characteristics affect the nature and extent of the information reported in financial statements and influence the location, structure and organization of the information communicated.

Redundancy in the General Derecognition Criteria

BC9.12 A few respondents noted that there is a redundancy between the general derecognition criteria since criterion (b), which stated that "the criteria for recognition of all or part of an asset or liability are no longer met," is inclusive of criterion (a), which stated that "all or part of an item no longer meets the definition of an asset or liability." This redundancy was intentional as it mirrors the redundancy retained in the general recognition criteria. To resolve this redundancy, the respondents suggested removing criterion (a).

BC9.13 PSAB considered this alternative. However, it felt that the resulting revised derecognition criteria were circular and not helpful to those only applying the general derecognition criteria.

BC9.14 To make the criteria more helpful, PSAB decided to enhance the derecognition criteria so that they would be the inverse of the general recognition criteria. This enhancement also includes the redundancy recognized in the general recognition criteria. As noted in paragraph BC9.05, the redundancy is intentional. The Board felt that the enhancements to the derecognition criteria would allow the derecognition criteria to stand on their own without referring to the general recognition criteria.

Inclusion of "Fulfilment Value" in the Proposed Conceptual Framework

BC9.15 Respondents noted that there are instances where historical cost is not available. For example, the option of historical cost may not be available when measuring employee future benefits, as no proceeds are received when the benefit obligation is incurred that can be used to establish the historical transaction cost.

BC9.16 A few respondents suggested including "fulfilment value" as a measurement attribute in the proposed Conceptual Framework,[18] indicating that it may be an appropriate value to use in situations when no historical proceeds are identifiable (e.g., employee future benefits).

BC9.17 PSAB recognizes that the lists of measurement attributes and measurement techniques in Chapter 9 are not exhaustive lists. As a result, not all possible measurement attributes or measurement techniques are included. When developing a standard, it is possible for the Board to use a measurement attribute or measurement technique that is not listed. Its use would need to be justified and explained in terms of how it contributes to better information for accountability purposes.

18 The IASB defines "fulfilment value" as "the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfills a liability. Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability." The IPSASB refers to the equivalent measurement attribute as "cost of fulfilment". It defines it as "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

BC9.18 The description of historical cost includes how historical cost may be interpreted for a liability for which an obligation exists, but no proceeds have been received. That description is, at initial measurement, "the estimated amount of cash or its equivalent to be paid or other consideration to be sacrificed to (a) settle the liability or (b) acquire, construct or develop an asset." It is found in paragraph 9.32(a)(iii). Its inclusion reflects the fact that estimation of historical cost may be required for initial measurement of some liabilities and assets. It acknowledges that such estimation may involve calculation of the initially expected value for discharging such a liability or obtaining an asset, in the due course of operations according to contractual or other terms.

Improvements to the "Going Concern" Discussion

BC9.19 Although respondents felt that the "going concern" discussion in the Statement of Concepts was an improvement over the discussion in the existing conceptual framework, a few respondents encouraged PSAB to provide further guidance and improvements. Because the improvements the respondents suggested (i.e., guidance as to what should be considered in making the assessment) appear to be application guidance rather than conceptual in nature, the Board decided to include any such additional guidance in the proposed financial statement presentation standard; see the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

Reconsider Requiring a Primary Measurement Attribute

BC9.20 A few respondents to the Statement of Concepts asked PSAB to reconsider identifying a primary measurement attribute.

BC9.21 The conceptual framework review was established as a limited-scope review to revise or confirm specific concepts underlying financial performance. The measurement attribute was not one of the concepts PSAB asked its Task Force to reconsider.[19] Although the Board reflected on the work done by other standard setters in developing the Statement of Concepts, the work did not include a full reconsideration of the relative merits of all of the possible measurement attributes that could be used in financial statements.

BC9.22 PSAB is reconfirming historical cost as the primary measurement attribute, recognizing that other measurement attributes might be required by the Board at the standards level when necessary to meet the accountability objective. For example:

(a) Derivatives with no transaction price recognized at historical cost would not be recognized at all in financial statements. Given the risks that such contracts pose regarding the financial health of entities, recognition of these contracts at nil would be misleading for financial statements users and, therefore, would not provide good accountability information. Disclosure is not a substitute for proper recognition and measurement of a transaction. It should be used to support, explain and expand on the information reported on and in the financial statements, as noted in Chapter 10 of the Exposure Draft.

(b) Historical cost may not be available for certain items, such as inherited natural resources and works of art and historical treasures. However, PSAB may ultimately conclude that these items should be recognized or disclosed for accountability purposes.

19 Paragraph PS 1000.60 includes general measurement principles that identify historical cost as the primary measurement attribute for financial statements but also recognizes that other attributes may be used in limited circumstances.

BC9.23 An important goal of the proposed Conceptual Framework is to establish concepts to ensure financial statements provide the accountability information needed by the public and its elected or appointed representatives and support the development of internally consistent and consistently applied standards. Although the primary measurement attribute for assets and liabilities is historical cost, there may be situations where PSAB may require another measurement attribute of an asset or liability to better meet the accountability objective. The different measurement attributes that the Board may require would depend on the situation under consideration and its choice would be grounded in meeting the overriding accountability objective.

BC9.24 Any PSAB requirement of a measurement attribute other than historical cost would be determined at the standards level. Its use would be justified and explained in terms of how it contributes to better information for accountability purposes. This proposed guidance is slightly different from what is included in the existing conceptual framework; however, the intent is the same. The proposed guidance (i.e., the Board determines whether a different measurement attribute should be used to better serve the accountability objective) is tighter than that in the existing conceptual framework. It specifically restricts any choice of an alternative measurement attribute to the Board and requires its justification in the relevant standard's basis for conclusions. This was the intent of the guidance in the existing conceptual framework. Therefore, the Board believes that this clarification would not create a change in practice.

Exclusions from Recognition

BC9.25 The recognition paragraphs in the existing conceptual framework (paragraphs PS 1000.57-58) exclude some items from recognition in an entity's financial statements. These include:

(a) natural resources (including trees or forests) that have been inherited in right of the Crown and have not been purchased;

(b) Crown lands that have been inherited in right of the Crown and have not been purchased;

(c) works of art and historic treasures that have been purchased or inherited; and

(d) certain intangibles (those that have been developed or inherited in right of the Crown).[20]

BC9.26 Historically, these items were excluded from recognition on the basis that the costs, benefits and economic value of such items could not be reasonably and verifiably quantified using existing methods. PSAB concluded that these are pragmatic exclusions that are not conceptually based. As a result, they should not be included in the proposed Conceptual Framework.

BC9.27 In developing the Statement of Concepts, PSAB considered two alternatives with respect to these exclusions:

(a) not including them in the proposed Conceptual Framework, but retaining them in Section PS 3210; or

(b) removing them from the PSA Handbook.

20 Purchased intangibles, purchased natural resources and purchased Crown lands can be recognized if they meet the asset definition and the general recognition criteria.

BC9.28 Removing the recognition exclusions from the PSA Handbook would have significant implications. PSAB concluded that before these exclusions can be removed, each type of economic resource must be considered individually. Appropriate guidance regarding their recognition and measurement must be provided. From a Conceptual Framework perspective, only general recognition and measurement concepts can be provided. The Board concluded that the exclusions should continue to exist. As a result, the Board, in its Statement of Concepts, proposed to remove them from the Conceptual Framework but retain them in a standard. The Board feels that this approach would give it the opportunity to consider the priority of the topics set out in these exclusions for its future technical agenda. The intent is to continue with the existing practice; that is, to continue to not recognize those items that are excluded from recognition until future decisions are made by the Board.

BC9.29 There was overwhelming support for the Statement of Concepts proposals to remove the recognition exclusions from the proposed Conceptual Framework.

Reconsidering the location of the recognition exclusions

BC9.30 In the Statement of Concepts, PSAB proposed to move the recognition exclusions from the Conceptual Framework to Section PS 3210.

BC9.31 A few respondents noted that moving the recognition exclusions to Section PS 3210 would contradict the purpose of that standard, as it is not a recognition standard. PSAB agrees. As a result, it decided to move the exclusions to the proposed financial statement presentation standard, outlined in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202." As standards related to the recognition exclusions are developed, consequential amendments would be made to the financial statement presentation standard to remove the relevant exclusion.

Reconsider removing the recognition exclusions from the PSA Handbook

BC9.32 In their responses to the Statement of Concepts, a few respondents encouraged PSAB to remove the recognition exclusions from the PSA Handbook entirely.

BC9.33 PSAB concluded that removing the recognition exclusions from the PSA Handbook would have significant implications. Specifically, there would be issues related to inherited items and certain intangibles such as those that are internally developed. The Board reconfirmed its original conclusion that before these exclusions can be removed, each type of resource must be considered individually, and stakeholders consulted. Guidance regarding their recognition, measurement and presentation would be provided before the recognition exclusions are removed from the PSA Handbook.

Development of Guidance Related to the Accounting for Natural Assets

BC9.34 Many respondents to the Statement of Concepts encouraged PSAB to develop guidance in relation to recognizing natural assets in financial statements.

BC9.35 PSAB will include this topic in its next project priority survey.

The Definition of "Fair Value"

BC9.36 PSAB recognizes that its definition of "fair value" is slightly different from that of international standard setters and recognizes that this may cause some confusion.[21] The Board contemplated amending the definition in the proposed Conceptual Framework. Doing so would require:

(a) a thorough review of all the mentions of "fair value" in the PSA Handbook to ensure that the revised definition applied; and

(b) in situations where the revised definition did not apply, consideration of the implication.

"Fair value" appears more than 200 times in the PSA Handbook. The Board feels that such a review is beyond the scope of the Concepts Underlying Financial Performance project as it may delay issuing the revised Conceptual Framework and reporting model.

BC9.37 In the future, if the definition of "fair value" is amended because of work done at the standards level, it would result in a consequential amendment to the proposed Conceptual Framework.

21 The PSAB's existing and proposed definition of "fair value" is consistent with the IASB's former definition of "fair value". PSAB's definition of "fair value" is consistent with the IPSASB's existing definition of "market value".

CHAPTER 10: PRESENTATION CONCEPTS FOR FINANCIAL STATEMENTS

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Background

BC10.01 Chapter 10 of the proposed Conceptual Framework defines presentation and identifies the presentation objective and the presentation concepts that lead to achieving the presentation objective in financial statements. This chapter completes the proposed Conceptual Framework. PSAB felt that this should be the last chapter because it provides information on how financial information that is selected would be presented. The chapters on qualitative characteristics (Chapter 7), elements (Chapter 8) and recognition and measurement (Chapter 9) provide guidance on selecting the information to be presented.

BC10.02 The existing conceptual framework in the PSA Handbook has no general presentation concepts. PSAB concluded that general guidance in this area might help increase the understandability and cohesiveness of the information presented in financial statements, thereby increasing their accountability value. The intent of adding presentation concepts is to:

(a) provide presentation guidance in the absence of specific standards;

(b) help entities apply professional judgment in presentation decisions and communicate information more effectively;

(c) improve the effectiveness of disclosures for the primary users; and

(d) help the Board develop and improve presentation requirements at the standards level.

BC10.03 Some of the concepts in this chapter are based on paragraphs that are currently in Section PS 1201. PSAB felt that some of the paragraphs were more conceptual in nature and should be foreshadowed in the proposed Conceptual Framework. These include:

(a) Notes and supporting schedules in financial statements should not be used as a substitute for proper accounting treatment (paragraph PS 1201.010).

(b) Financial statements should be presented in such form and use such terminology and classification of items that significant information is readily understandable (paragraph PS 1201.016).

BC10.04 These paragraphs are re-emphasized at the standards level in the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202," because they are key.

BC10.05 New presentation concepts have also been added to promote the preparation of understandable financial statements to meet the accountability objective.

BC10.06 Some entities may already apply the proposed concepts in preparing their financial statements. Others may need to institute new practices to ensure that the financial statements are understandable to the public and its elected or appointed representatives.

Presentation Includes Disclosure

BC10.07 Historically, users looked at presentation and disclosure separately. "Presentation" was understood as referring to what is reported on the face of the financial statements, while "disclosure" was understood as referring to what is included in the notes and schedules. In developing the Statement of Concepts, PSAB proposed to define "presentation" as "the process by which an entity communicates information in its financial statements." This definition is consistent with the intended meaning of "to present" found in various dictionaries. Based on this proposed definition of "presentation", "disclosure" is a part of "presentation". Disclosure is one way information is presented in financial statements. Reporting on the face of the financial statements alone is insufficient for a reader to understand an entity's assets, liabilities, revenues and expenses. Disclosure is integral to presentation.

BC10.08 The notion that presentation includes disclosures would require a series of amendments to various standards in the PSA Handbook. The amendments would not change practice and are only conforming amendments to ensure consistent terminology.

Equality of Individual Statements and Notes in the Financial Statement Package

BC10.09 One of the issues that gave rise to the conceptual framework review was the perception that the existing conceptual framework is focused on the statement of financial position. When the existing conceptual framework was approved, PSAB did not intend to elevate the importance of the statement of financial position over the statement showing the surplus or deficit. The Board does not intend for there to be a hierarchy of financial statements where one is considered more important. Therefore, the proposed presentation concepts chapter clearly states, in paragraph 10.11, that "[n]o one individual statement in the financial statement package is more important than any other individual statement. Each statement has its own purpose."

BC10.10 The chapter also states, in the same paragraph, "The notes and schedules in the financial statement package have the same significance as information recognized and reported on the face of the financial statements." PSAB believes that recognition and reporting on the face of the financial statements, either individually or within totals, does not necessarily meet all the accountability requirements. As a result, notes and schedules are an integral part of the financial statement package.

(a) They clarify and explain items, transactions and other events recognized and reported on the face of the financial statements, either individually or within totals.

(b) They present information that augments and supports fair presentation of an entity's financial position and periodic financial performance.

BC10.11 PSAB believes that all statements and the related notes and schedules need to be looked at together when evaluating the presentation of an entity's financial position and periodic financial performance for cohesiveness and how well it meets the qualitative characteristics of financial information and the accountability objective.

Presenting a Cohesive Picture

BC10.12 A few respondents to the Statement of Concepts were concerned with the use of the term "cohesive" and possible unintended consequences that its use may have. PSAB considered this concern. The Exposure Draft provides the meaning of "cohesive", in paragraph 10.08, in relation to financial statements and how that term is expected to be interpreted in presenting information in financial statements:

> A cohesive financial picture means that the relationship between items, transactions and other events across financial statements is clear and that an entity's financial statements, including the related notes and schedules, complement each other as much as possible. Ensuring that the association between the different aspects of the same transaction or other event is apparent in the financial statements is a fundamental aspect of providing a cohesive financial picture.

BC10.13 The statement above encourages the presentation of the entire picture of an entity's performance and requires that interrelationships between items, transactions and other events presented in financial statements are clear to readers.

Supplemental Information

BC10.14 PSAB feels that an entity's financial position and periodic financial performance prepared in accordance with GAAP is crucial accountability information for the public and its elected or appointed representatives, as established in the other chapters of this proposed Conceptual Framework. When an entity prepares supplemental information, such as the FSD&A, as described in SORP–1, it expands on and explains the information in its financial statements. The presentation definition, objective and concepts in this chapter are intended as guidance to help entities prepare financial statements designed to:

(a) meet the understandability and accountability needs of the public and its elected or appointed representatives; and

(b) provide a strong foundation for presenting supplemental information when it is prepared.

Legislated Requirements

BC10.15 PSAB recognizes that there may be instances where legislation requires certain entities to present (i.e., recognize, report or disclose) information in financial statements that is inconsistent with standards and/or the proposed Conceptual Framework. In these rare circumstances, this information is to be clearly identified as being inconsistent with standards and/or the proposed Conceptual Framework.

Use of Emerging Technology

BC10.16 In Chapter 10, PSAB recognizes that available emerging technology should be considered in making financial statements more accessible and understandable.

GLOSSARY

Definition of Government

BCG.01 In the Glossary of the Statement of Concepts, PSAB proposed a definition of "government".

BCG.02 Many respondents disagreed with the proposed definition because they were concerned that the exceptions noted in the definition (the fact that in GOVERNMENT TRANSFERS, Section PS 3410, and in TAX REVENUE, Section PS 3510, the term "government" refers to the elected and appointed policy-makers and administrators who together perform the executive function for the jurisdiction) would create confusion.

BCG.03 In determining the way forward, PSAB considered various options. Ultimately, the Board decided to not define "government" because:

(a) The drivers that led to a review of the definition of "government" (i.e., the Joint Working Group requested that the definition of "government" be reviewed as it referenced "elected and appointed policy-makers" in paragraph PS 1000.02 rather than an ongoing entity that survives a change in the elected representatives) have been resolved through other changes in the proposed Conceptual Framework and proposed Financial Statement Presentation standard.

(i) A key improvement in the proposed Conceptual Framework is the introduction of Chapter 2, "Characteristics of Public Sector Entities." The purpose of this chapter is to lay out the understanding of the public sector environment. Further, in Chapter 2, the Board included a discussion on the "longevity of the public sector," which mentions the longevity of governments.

(ii) The definition of "government" noted in paragraphs PS 1000.02 and PS 1100.02 is not part of the proposed Conceptual Framework. This should assist in removing any confusion the existing definition of "government" is creating.

(iii) The enhanced going concern discussion in FINANCIAL STATEMENT PRESENTATION, proposed Section PS 1202, also references the longevity of public sector entities.

(b) Readers of the PSA Handbook understand the term "government" to normally represent the whole of government financial reporting entity. Readers of the PSA Handbook also understand what "government" refers to in Section PS 3410 and PS 3510 in the authorization requirements.