PSAB
Public Sector
Accounting Board

October 2023

In Brief

A plain and simple overview of the Conceptual Framework for Financial Reporting in the Public Sector: then and now

Introduction

The Conceptual Framework for Financial Reporting in the Public Sector is now in the CPA Canada Public Sector Accounting (PSA) Handbook. It is a comprehensive set of concepts that underlie and support financial reporting. It is the foundation that assists:

- preparers to account for items, transactions and other events not covered by standards;
- auditors to form opinions regarding compliance with accounting standards;
- users in interpreting information in financial statements; and
- PSAB to develop standards grounded in the public sector environment.

Superseded conceptual framework	• Section PS 1000, *Financial Statement Concepts* • Section PS 1100, *Financial Statement Objectives*
New Conceptual Framework	• Chapter 1: Introduction to the Conceptual Framework • Chapter 2: Characteristics of Public Sector Entities • Chapter 3: Financial Reporting Objectives • 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

Why did PSAB review and amend the Conceptual Framework?

PSAB reviewed the superseded Conceptual Framework because:

- It is necessary for a standard setter to periodically review its Conceptual Framework to ensure it remains relevant.
- Interested and affected parties asked the Board to look at the superseded Conceptual Framework to ensure it properly reflected and was grounded in the public sector environment.
- Some standards-level issues made groups, such as the 2007-2009 Joint Working Group, question the foundations of public sector financial reporting, and they asked the Board to reconfirm their appropriateness.

What are the main amendments?

Introduces	• financial reporting objective, primary users and the broad financial reporting accountabilities • service capacity concept • derecognition • presentation concepts
Updates	• characteristics of public sector entities that have financial reporting implications • financial statement objectives • qualitative characteristics of financial information and related considerations • element definitions • measurement attribute
Clarifies	• foundations of the Conceptual Framework • financial statement foundational concepts • going concern presumption
Relocates	• recognition exclusions

How does the new Conceptual Framework affect users?

The Conceptual Framework is not a standard and does not override specific standards. However, certain chapters may affect how and what information is presented in financial statements:

- Chapter 1 (and Section PS 1150, *Generally Accepted Accounting Principles*): Entities would need to use the new Conceptual Framework to develop or select accounting policies when no standard specifically applies to a particular economic resource, economic obligation, transaction or other event (i.e., "entity-developed accounting policies").
- Chapter 6: Sets out amended financial statement objectives and foreshadows the new reporting model (i.e., the new aspects to be presented in the financial statements). This led to the creation of Section PS 1202, *Financial Statement Presentation*. Entities would need to apply the requirements of the new Section.
- Chapter 10: Entities applying the new presentation concepts may need to review their financial statement disclosures.

Further:

- Consequential amendments were made throughout the PSA Handbook to make it consistent with the new Conceptual Framework.
- Relocating the recognition exclusions creates an opportunity for these items to be possibly recognized in the future.
- The Conceptual Framework is a primary touchstone in the Criteria for Modifying and Reviewing IPSAS Principles in PSAB's International Strategy, and so it will be considered when developing future Canadian standards. For more details, see "PSAB and IPSASB: Comparing Conceptual Frameworks".

Chapter 1: Introduction to the Conceptual Framework

Chapter 1 explains:
- What a Conceptual Framework is and does.
- Who uses it.
- Why it is important.
- What its objective and status are.
- When and how it should be applied.

Definition

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.

Objective

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.

Status

The Conceptual Framework provides concepts and guidance for developing internally consistent accounting standards. It is not a standard. Nothing in the Conceptual Framework overrides any specific standard.

Applicability

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

Transitional provisions and effective date

The Conceptual Framework applies to fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted. This Conceptual Framework is to be applied prospectively.

All new standards will be based on the new Conceptual Framework.

Scope and structure

The Conceptual Framework first sets out concepts relevant to all public sector financial reporting (in Chapters 2-3). It also includes concepts and foundations necessary for financial statement reporting and the establishment of generally accepted accounting principles (GAAP) for financial statements of public sector entities (in Chapters 4-10).

What has changed?

Most of the content in this chapter is new. The Conceptual Framework's status and applicability remains the same.

How do these amendments affect the user?

The user will better understand what a Conceptual Framework is.

Chapter 2: Characteristics of Public Sector Entities

Chapter 2 identifies the key characteristics of public sector entities that have financial reporting implications. These characteristics fundamentally shape the objective of public sector financial reporting.

Identifying the characteristics of public sector entities will result in concepts and standards that are appropriate to the public sector.

Public sector entities exist to serve the public. This purpose is the lens through which key characteristics of public sector entities for financial reporting purposes are identified.

What are the key characteristics of public sector entities that have financial reporting implications?

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

- entrusted with public resources; and
- responsible for how public resources are used, managed and maintained.

Public sector entities vary, and individual entities may not have all these characteristics.

1 Inherent public accountability

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

- their power to tax and/or otherwise obtain and use public resources;
- their ability to exercise powers and rights and fulfill responsibilities in the public interest;
- their capacity to incur debt and invest public money; and
- the commitments made for which reporting against the budget becomes an important mechanism for ensuring accountability.

2 Unique governance structures

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

- The structures are based on the Constitution or derived through the powers and rights set out in it or are based on Indigenous laws or rights.
- The political dimension of governance involves elected, appointed or hereditary public officials managing public resources.
- The obligation to comply with the operating and financial frameworks is set out in legislation.
- Services are often provided in a monopolistic environment.
- There is a lack of or minimal equity ownership.
- There may be interrelationships between public sector entities from a funding and service-delivery perspective necessary to allow them to fulfill their obligation to serve the public.

3 Multiple public interest objectives

The multiple public interest objectives include:

- provision of public goods and services;
- resource reallocation;
- stewardship of public resources; and
- peace, order and good government.

4

Nature and use of public resources

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

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, or disposal.

5

Financial significance of non-exchange transactions

Many transactions in the public sector are non-exchange transactions. Non-exchange transactions are transactions or other events where there is no direct transfer of goods or services to a payor. Examples include tax revenue and transfers of resources between different levels of government.

6

Longevity of the public sector

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.

What has changed?

Chapter 2 replaced Appendix A, "Unique Characteristics of Government," in superseded Section PS 1100, more fully describing the characteristics of the public sector.

The definition of "government" was removed. Certain governments requested that the definition of "government" be reviewed. PSAB concluded that "government" did not need to be defined because:

- Chapter 2 lays out the understanding of the public sector environment, including the longevity of governments.
- PSA Handbook readers understand the term "government" normally represents the whole of government financial reporting entity. They also understand what "government" refers to in relation to authorizing tax policies or transfers of resources (i.e., the legislature or council).

How do these amendments affect the user?

The user will learn more about the Canadian public sector, which is important context for interpreting the financial statements of public sector entities.

Chapter 3: Financial Reporting Objective

Chapter 3 identifies the financial reporting objective. The financial reporting objective leads to identifying those to whom a public sector entity is accountable (the primary users) and for what (serving the public and providing information about how the broad accountabilities in financial reporting have been met).

What is the financial reporting objective?

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

To whom is the public sector entity accountable?

A public sector entity is accountable to the public and its elected or appointed representatives. They are the primary users of public sector financial reports.

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

For what is a public sector entity accountable?

- **Serving the public:** Chapter 2 states this purpose so, identifying and measuring a public sector entity's capacity or ability to do so is important. This is referred to as "service capacity".
- **Broad accountabilities in financial reporting:** The financial reports of public sector entities are expected to report:
    - the entity's financial condition;
    - the entity's financial performance; and
    - the extent to which the entity performed in accordance with its financial authorities and plan.

The notion of service capacity underpins the broad accountabilities, specifically financial condition and financial performance because:

- 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.

What has changed?

The identification of the financial reporting objectives, primary users and broad accountabilities is new. The financial reporting objective identifies a purpose. The primary users, broad accountabilities, qualitative characteristics of financial information and the concepts for recognition, measurement and presentation follow logically from the objective.

Chapter 3 also introduces the concept of service capacity. Since the purpose of public sector entities is to serve the public, evaluating an entity's capacity to serve the public is important for accountability purposes. This concept is similar to the capital maintenance concept in private sector financial statements. While the concept is not new, its articulation in the Conceptual Framework and its label are.

The term "service capacity" does not replace any of the existing terminology in the financial statements.

How do these amendments affect the user?

The additional guidance provided helps the user better understand what a public sector entity is financially accountable for.

Chapter 4: Role of Financial Statements

Chapter 4 identifies financial statements as a critical type of financial report, explaining what can and cannot be reported on in financial statements. The remainder of the Conceptual Framework focuses on the concepts and foundations necessary for financial statement reporting.

What is the role of financial statements?

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

They serve as a means by which a public sector entity accounts for its administration of public financial affairs and resources.

Financial statements can only show certain aspects of what an entity is accountable for. Nevertheless, financial statements provide important accountability information because they:

- help satisfy the needs of users who have limited authority, ability or resources to obtain information, and for whom the financial statements are an important source of information; and
- are an important anchor to an entity's other financial and accountability reporting, especially when they are audited.

What has changed?

The key concepts in relation to the role of financial statements have remained the same. Additional guidance is included to explain some of the limitations of financial statements and how the financial reporting concept of service capacity and the broad accountabilities to be demonstrated in public sector financial reports are reflected in financial statements.

How do these amendments affect the user?

The additional guidance helps users better understand the role of financial statements and the accountability they provide.

Chapter 5: Financial Statement Foundations

Chapter 5 sets out the four basic decisions standard setters make as the basis for establishing concepts and standards for financial statements.

What are they?

Identifiable reporting entity	Financial statements should be prepared to report on the financial affairs, economic resources, and economic obligations of an identifiable reporting entity (including its components and organizations).
Control	Control is the basis for associating economic resources, including interests in other entities, with a reporting entity. Control, as a financial statement foundational concept, is having the existing ability to direct the use of economic resources with the expected economic benefits and/or risk of loss accruing to the reporting entity.
Unit of measure	The Canadian dollar with no adjustment for changes in general purchasing power.
Basis of accounting	Accrual.

What has changed?

While these foundations were in the superseded Conceptual Framework, PSAB concluded it was important to identify and explain them more clearly and fully. In particular, the Board decided additional information about the concept of control should be provided.

The concept of control

The concept of control permeates the theory underlying what is included in an entity's financial statements. As a result, PSAB articulated the general idea and role of control in the Conceptual Framework. However, the application of control is detailed at the standards level.

While the concept of control is not new, its articulation in the Conceptual Framework is.

How do these amendments affect the user?

The additional guidance helps the user better understand the foundational concepts that underlie the numbers reported in financial statements, for example:

- the boundaries of the entity reporting (i.e., what is included and excluded, and why);
- the numbers are reported in Canadian dollars; and
- more than just cash inflows and outflows are included in the numbers reported.

Chapter 6: Financial Statement Objectives

Chapter 6 identifies the six financial statement objectives that provide a high-level overview of what should be reported in financial statements. Section PS 1202 details how they are to be met in financial statements.

Financial statement objectives establish the information to be included in financial statements to meet the accountability objective.

What are the financial statement objectives?

1. **SCOPE:** Financial statements should account for the full nature and extent of the financial affairs of an entity, the economic resources it controls and the economic obligations it must settle, including those of its components and controlled organizations.
2. **REPORTING FINANCIAL POSITION:** Financial statements should present information to describe an entity's financial position at the end of the accounting period.
3. **REPORTING CHANGES IN FINANCIAL POSITION:** Financial statements should present information to describe the changes in the entity's financial position in the accounting period. This information describes:
   - the sources, allocation and use of the entity's economic resources that explain the entity's financial performance;
   - how the entity financed its activities; and
   - how it met its cash requirements in the accounting period.
4. **COMPARING ACTUAL FINANCIAL PERFORMANCE TO THAT BUDGETED:** 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.
5. **DISCLOSING NON-COMPLIANCE WITH FINANCIAL AUTHORITIES:** 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.
6. **DISCLOSING RISKS AND UNCERTAINTIES:** 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.

What has changed?

Chapter 6 builds on and revises the objectives set out in superseded Section PS 1100.

Amendment	Why?
Amended the explanatory material related to each objective to focus on its importance in meeting the overarching accountability objective of public sector financial reporting. Section PS 1202 explains what, where and how to report the information necessary to meet those objectives in financial statements.	Chapter 6 needed to show explicitly the link between the overall accountability objective and broad accountabilities in Chapter 3 and the financial statement objectives in Chapter 6. This prepares the groundwork for a new reporting model in Section PS 1202, allowing public sector entities to provide the necessary accountability.
Amended the explanatory material related to reporting financial position (Objective 2) to introduce the notion that accountability reporting is improved when the financial statements separately report: • the significant identifiable sources (or components) of an entity's financial position; and • the financial or non-financial nature of both economic resources and economic obligations – specifically financial and non-financial obligations were introduced.	Acknowledging different sources (or components) of financial position recognizes the reality that financial position is made up of more than an accumulation of surpluses and deficits. Acknowledging financial and non-financial liabilities recognizes the reality that there are different types of liabilities with differing settlement requirements.

Amendment	Why?
Amended the explanatory material related to reporting changes in financial position (Objective 3) to: • 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 • remove the discussion on requiring the reporting of change in net debt.	Acknowledging that certain revenues and/or expenses may be recognized outside of that period's surplus or deficit allows the new public sector reporting model to be sustainable (i.e., able to present the effects of future issues). Most of an entity's raising and use of resources in the period would be recognized in that period's surplus or deficit. Only items that PSAB approves in standards pursuant to the due process can be reported outside of that period's surplus or deficit. Removing the requirement to report the change in net debt responds to the feedback that such reporting is an accounting reconciliation that does not add value because it is not easily understood. However, presenting the change in the indicator would be optional as long as the information presented is understandable and useful for accountability purposes.
Divided legislative control and government financial accountability (Objective 4) into two objectives: • comparing actual financial performance with that budgeted (new Objective 4); and • disclosing non-compliance with financial authorities (new Objective 5).	The objective was divided as it deals with two separate matters.
Added a new objective: Disclosing risks and uncertainties that impact financial position or changes in financial position (new Objective 6).	Financial statements that are comprehensive and respond to the accountability objective need to present the risks and uncertainties to which an entity is exposed.

How do these amendments affect the user?

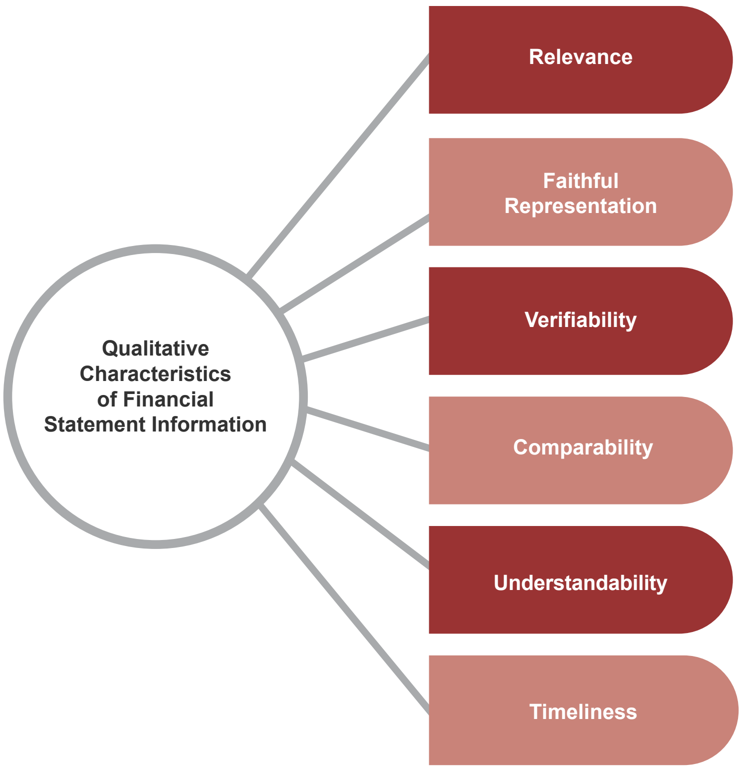
The updated financial statement objectives lead to an improved reporting model that provides enhanced information for accountability purposes. Stay tuned for a related In Brief on the new reporting model.

Chapter 7: Financial Statement Information: Qualitative Characteristics and Related Considerations

Chapter 7 establishes the qualitative characteristics financial information must meet to be included in financial statements and identifies considerations for including such information.

Qualitative characteristics are the attributes that make financial statement information useful to users for accountability purposes.

What are the qualitative characteristics of financial statement information?



The financial statements should aim to achieve an appropriate balance among the qualitative characteristics. 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:

- benefit versus cost;
- materiality; and
- prudence.

What has changed?

Amendment	Why?
Replaced "reliability" with "faithful representation".	Other standard setters have found that "faithful representation" is easier to understand and apply than "reliability".
Removed "conservatism" as an aspect of a qualitative characteristic and added "prudence" as a related consideration (see below).	In practice, conservatism often means a preference for understatement of revenues and assets and overstatement of liabilities and expenses. This introduces a bias into financial statements that conflicts with the neutrality aspect of faithful representation.
Elevated "verifiability" to a qualitative characteristic, separate from faithful representation.	Verifiability is separate from faithful representation because: • information may faithfully represent, but not be verifiable; and • information may be verifiable without faithfully representing.
Elevated "timeliness" to a qualitative characteristic, separate from relevance.	Timeliness is linked to many qualitative characteristics, not just relevance (e.g., timely information is useful if it is relevant and faithfully represented).
Explained the application of "comparability" in the public sector, with specific reference to actual-to-budget comparisons.	Comparing actual to budgeted performance is an important aspect of the accountability cycle. This fundamental part of the accountability cycle is emphasized throughout the Conceptual Framework.
Emphasized the "understandability" qualitative characteristic.	Raises the profile of understandability given its role in accountability. Accountability is best achieved when those to whom an entity is accountable understand the financial statement information provided to them. This encourages greater understandability of financial statement information for users.

Amendment	Why?
Added “materiality” as an additional consideration when applying the qualitative characteristics.	Materiality relates to and can impact several qualitative characteristics of information included in financial statements.
Added “prudence” as an additional consideration when applying the qualitative characteristics.	Prudence is a part of every professional judgment made in determining the information to be provided in financial statements. Prudence is more neutral than conservatism.
Removed “accountability value” as an aspect of relevance.	Accountability is the underlying theme of the Conceptual Framework and the overarching objective of public sector financial reporting. So, accountability is broader than just a component of a qualitative characteristic.

How do these amendments affect the user?

Users will better understand the qualitative characteristics and related considerations that affect the information they see in financial statements. The updated characteristics and considerations will lead to improved financial statement information for users.

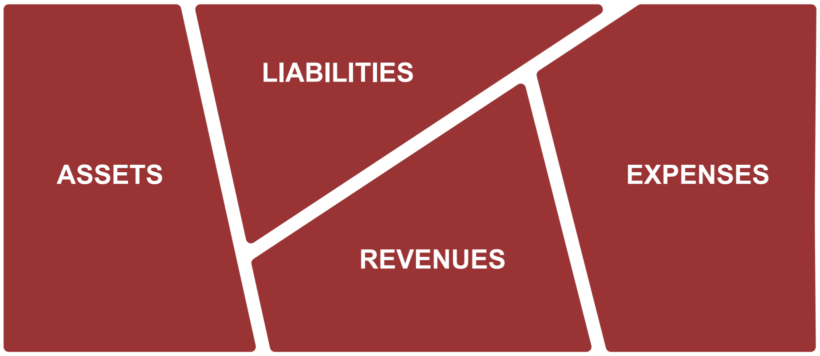
Chapter 8: Elements of Financial Statements

Chapter 8 defines and explains the four elements recognized in financial statements.

Elements are the basic building blocks from which financial statements are constructed.

Aggregating information into common classifications that characterize their nature helps users understand the many items, transactions and other events summarized in financial statements.

What are the elements of financial statements?



Importance of all elements

Revenue and expense are defined in terms of changes in assets and liabilities. But for accountability purposes, revenues and expenses are just as important as assets and liabilities.

No deferred inflows or deferred outflows as elements

The elements of financial statements are defined in terms of economic resources, economic obligations and changes in them. Deferred inflows and outflows that do not meet the definition of assets or liabilities would not be recognized in the financial statements.

Net assets or net liabilities is a residual amount, not an element

Defined as, or considered, a residual amount does not mean that net assets or net liabilities is meaningless. It is a measure of the entity's financial position at a point in time that provides information useful in evaluating the financial sustainability of the entity and its ability to serve the public in the future (i.e., financial position is one important service capacity measure – see Chapter 4).

What has changed?

Improvements to the asset and liability definitions

The asset and liability definitions were modified to be singular and constructed in a parallel fashion.

Old Definition	New Definition
Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.	An **asset** is a present economic resource controlled by an entity as a result of a past event(s) and from which future economic benefit is expected to be obtained.

The main amendment to the asset definition 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. Only present economic resources can meet the definition of an asset. Possible economic resources (e.g., contingent assets) or future economic resources (e.g., contractual rights) cannot meet the definition of an asset.

Old Definition	New Definition
Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.	A **liability** is a present economic obligation of an entity to others as a result of a past event(s), the settlement of which is expected to result in a future sacrifice of economic benefit.

The main amendment to the liability definition is the addition of “economic” in front of “obligation”. “Economic” was inserted to refer to the nature of the obligation.

“Transactions” was removed from the definitions as it is a subset of “events”. However, the Board concluded that rather than eliminating “transactions” throughout, it would be more helpful to refer to “transactions and other events”.

No change in the substance of the definitions is intended.

Consequential amendments have been made to Section PS 3200, *Liabilities*, and Section PS 3210, *Assets*, to make them consistent with the Conceptual Framework.

Improvements to the revenue and expense definitions

The revenue and expense definitions were refined by:

- making them singular, consistent with the asset and liability definitions;
- removing unnecessary detail; and
- constructing them in a parallel fashion as appropriate.

Old Definition	New Definition
Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period.	**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.

Old Definition	New Definition
Expenses, including losses, are decreases in economic resources, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period.	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.

The main amendment to the definitions is the inclusion of 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.

No change in the substance of the definitions is intended as guidance previously required an increase or decrease in net assets or net liabilities.

Consequential amendments have been made to Section PS 3400, *Revenue*, to make the definition consistent with the Conceptual Framework. No change in the application of this standard is intended as a result of updating the revenue definition used as the basis for the Section.

Other changes

The definitions of “financial assets” and “non-financial assets” have been moved to Section PS 1202. This is a category of assets, not a type of financial statement element.

Entities that have equity ownership interests, such as issued share capital, would recognize their existence as a component of net assets or net liabilities, called “issued share capital”.

How do these amendments affect the user?

Revising the definitions of “asset”, “liability”, “revenue”, and “expense” make the similarities and differences clearer and assist in their application.

Identifying the resources attributable to owners and providing the basis for their presentation in the reporting model provides useful accountability information about ownership arrangements.

Chapter 9: Recognition and Measurement in Financial Statements

Chapter 9 establishes and explains:

- recognition and the general recognition criteria;
- derecognition;
- measurement and the measurement attribute; and
- going concern.

What is recognition?

Recognition is the inclusion of an item, transaction or other event within one or more financial statements.

Recognition does not mean disclosure in the notes and schedules to the financial statements.

Recognition criteria

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

- the item, transaction or other event meets the definition of an element;
- it is expected that the future economic benefits related to the item will be obtained or sacrificed; and
- the item, transaction or other event can be measured in a way that satisfies the qualitative characteristics of information and takes into account the related considerations.

Redundancy in the recognition criteria

There is a redundancy between the first two recognition criteria. The definition of an element already considers the expectation of obtaining or sacrificing future economic benefits.

PSAB recognized the redundancy but decided to retain it after consulting with interested and affected parties. Retaining it shows how the recognition criteria require assessment of various uncertainties:

- existence uncertainty, through the first criterion;
- realization uncertainty, through the second criterion; and
- estimation uncertainty, through the third criterion.

What is derecognition?

Derecognition is the removal of all or part of a previously recognized item from the financial statements.

This normally happens when:

- all or part of an item no longer meets the definition of an asset or liability;
- it is no longer expected that the future economic benefits related to the item will be obtained or sacrificed; or
- the item can no longer be measured.

Redundancy in the derecognition criteria

The redundancy is intentional as it is similar to that retained in the recognition criteria.

What is measurement?

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.

What is the measurement attribute?

A measurement attribute is the feature of the asset or liability that is quantified.

Several measurement attributes can be used for initial or subsequent measurement in financial statements, but consistent with the superseded Conceptual Framework and in response to feedback, PSAB chose a primary measurement attribute.

> **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.**

Any 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 would be documented in the relevant standard's basis for conclusions.

What is the going concern presumption?

Financial statements are prepared presuming the entity is a going concern. This means that the entity will continue in operation, realize assets, discharge liabilities and meet its statutory and other obligations in the normal course of operations for the foreseeable future.

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.

Chapter 9 establishes the going concern presumption, building on the longevity discussion in Chapter 2. The going concern guidance in Section PS 1202 is based on these conceptual underpinnings. These three related sources should be considered together in evaluating the appropriateness of the going concern presumption for an individual entity.

What has changed?

The recognition criteria and the measurement attribute remain substantively the same as in the superseded Conceptual Framework.

The guidance related to the measurement attribute is slightly different from what was in the superseded Conceptual Framework; however, the intent is the same. It specifically restricts any choice of an alternative measurement attribute to PSAB. This was the intent of the guidance in the superseded Conceptual Framework. Therefore, the Board believes that this clarification will not create a change in practice.

The derecognition concept is also introduced; the superseded Conceptual Framework did not define derecognition or describe when derecognition occurs.

Additional guidance has been provided in relation to going concern.

Relocating the recognition exclusions

The recognition paragraphs in the superseded Conceptual Framework exclude the following from recognition in an entity's financial statements:

Natural resources (including trees or forests) that have not been purchased

Crown lands that have not been purchased

Works of art and historic treasures

Certain intangibles (those that have been developed or not purchased).

These were excluded from recognition because their costs, benefits and economic value could not be reasonably and verifiably quantified using existing methods.

PSAB concluded that these pragmatic exclusions are not conceptually based and should be removed from the Conceptual Framework. However, the Board also thought the exclusions should be retained until guidance is provided for their recognition. As a result, the Board moved these exclusions to Section PS 1202. The Board will consider these topics when setting its future technical agenda.

How do these amendments affect the user?

The increased guidance on derecognition and going concern fills a gap in the PSA Handbook and helps users better understand and apply these concepts.

Relocating the recognition exclusions will have no immediate effect on the user. However, items that are not recognized now may be recognized in the future, adding to the accountability provided in financial statements relating to the use of public resources.

Chapter 10: Presentation Concepts for Financial Statements

Chapter 10 defines presentation and identifies the presentation objective and the presentation concepts that lead to achieving the presentation objective in financial statements. This final chapter provides guidance on how financial information – assembled by applying the requirements of the PSA Handbook to achieve fair presentation – would be presented for accountability purposes in financial statements. The chapters in the Conceptual Framework on qualitative characteristics (Chapter 7), elements (Chapter 8) and recognition and measurement (Chapter 9) set parameters that underlie GAAP and help an entity select the information to present.

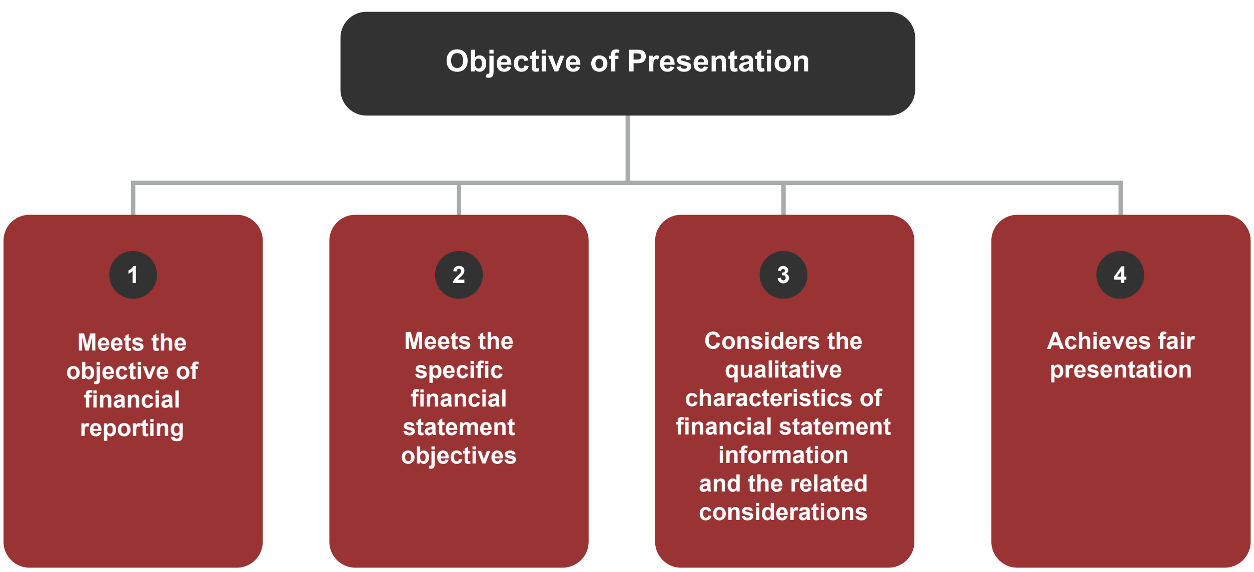
What is presentation and why are presentation concepts needed?

Presentation is how an entity communicates information in its financial statements to meet the financial reporting objective (Chapter 3) and the specific financial statement objectives (Chapter 6).

Presentation includes:

- the recognition and reporting of items, transactions or 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.

The objective of presentation is to present information in a manner that maximizes the accountability value of the financial statements to the users. It should also portray a cohesive financial picture of an entity's economic activities in a way that:



What are the presentation concepts?

1. No one individual statement in the financial statements package is more important than any other. Each has its own purpose. The notes and schedules in the financial statements package have the same significance as information recognized and reported on the face of the financial statements.
2. Information presented in financial statements meets the presentation objective when it:
    - provides information at the level of detail appropriate to financial statements;
    - gives higher profile in disclosures to matters of importance that have occurred in the period; and
    - is entity- and period-specific.
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.
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:
    - the appropriateness of aggregating like items, transactions and other events to make them more understandable;
    - 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;
    - whether the information has a clear and demonstrable relationship to:
        - information recognized and reported on the face of the statements, either individually or within totals; or
        - information disclosed elsewhere in the notes and schedules,

      and how to present those relationships;
    - 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; and
    - the possible trade-off between adhering to presentation concepts and maximizing usefulness for users.

What has changed?

General presentation concepts and guidance have been added; the superseded Conceptual Framework had none.

General presentation concepts and guidance improve the understandability and cohesiveness of the information presented – increasing the accountability value.

Some of the concepts in this chapter are based on paragraphs in superseded Section PS 1201. New presentation concepts have also been added to promote the preparation of understandable financial statements to meet the accountability objective.

The use of emerging technology has been included. Available emerging technology should be considered in making financial statements more accessible and understandable.

How do these amendments affect the user?

Some entities may already apply the concepts in Chapter 10 in preparing their financial statements. Others may need to institute new practices when implementing these concepts to ensure the financial statements are understandable to the primary users.

The use of technology by financial statement preparers may help make the financial statements more accessible and understandable for readers.

Consequential Amendments Arising from the New Conceptual Framework

How does the Conceptual Framework affect the PSA Handbook?

As a consequence of issuing the Conceptual Framework:

The superseded Conceptual Framework was withdrawn	**Various Sections and Guidelines of the PSA Handbook were amended**

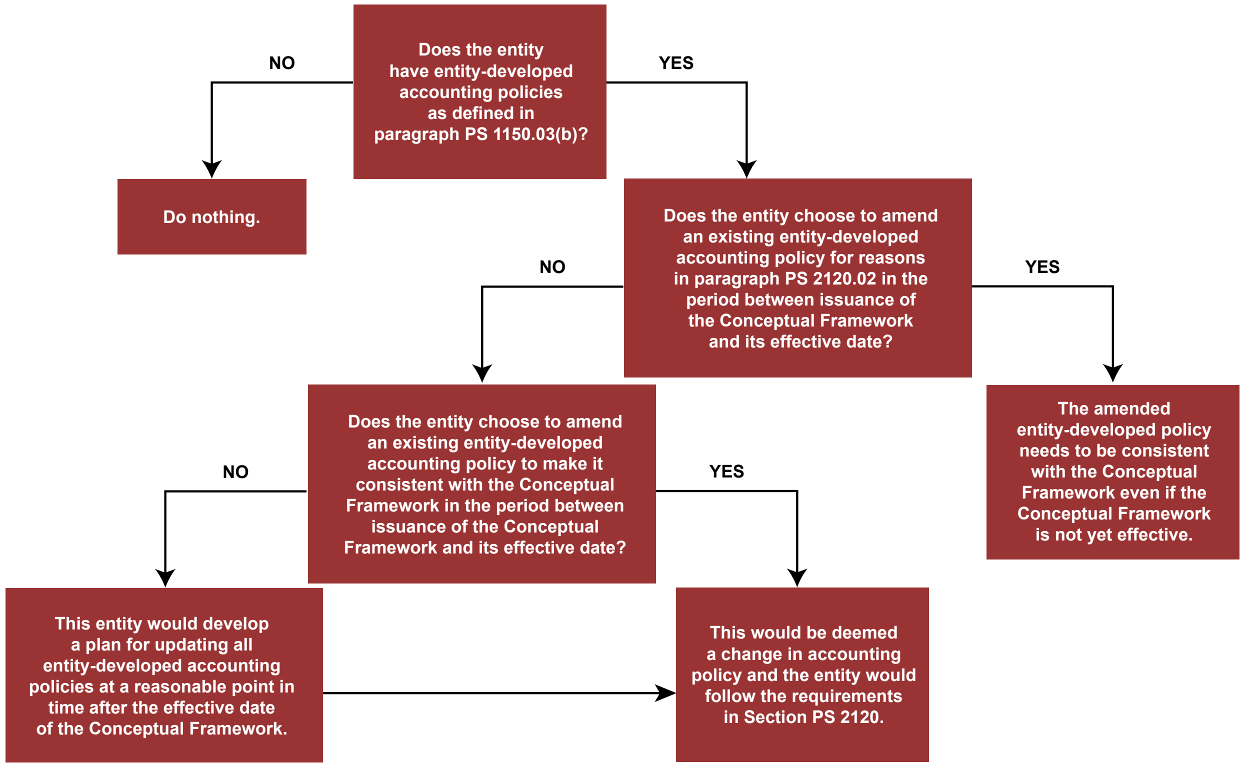
Highlight Summary no. 54 details these amendments.

How do these amendments affect the user?

Most of the consequential amendments are editorial in nature. However, a few consequential amendments introduce new requirements or new guidance.

- New requirement in Section PS 1150: If no standard in the PSA Handbook specifically applies to a particular item, transaction or other event and an entity does not have an existing policy applicable to the transaction or other event, paragraph PS 1150.05 requires entities to develop and adopt a new accounting policy for that transaction or other event. The entity-developed accounting policy is required to be consistent with the primary sources of GAAP and the Conceptual Framework. Even if this circumstance occurs prior to the entity adopting the Conceptual Framework, the entity will reference the Conceptual Framework in developing the new accounting policy.
- New guidance in Section PS 2100: The use of technology may allow details of significant accounting policies related to individual financial statement items to be disclosed with the relevant note for each item as long as cross-references to such details are included in a single significant accounting policy note.

- New requirements in Section PS 2120:
  - When an entity chooses to amend an existing entity-developed accounting policy for the sole reason of making it consistent with the Conceptual Framework, this would be deemed a change in accounting policy and the entity would follow the requirements in Section PS 2120. An entity can choose to make this amendment before or once the Conceptual Framework is effective, for fiscal years beginning on April 1, 2026, or after.
  - If an entity does not choose to amend its existing entity-developed accounting policies to make them consistent with the Conceptual Framework prior to or at the effective date of the Conceptual Framework, then the entity would need to develop a plan and a reasonable timeframe as to when its existing entity-developed accounting policies would be consistent with the Conceptual Framework. Amendments to existing entity-developed accounting policies to be consistent with the Conceptual Framework would be deemed a change in accounting policy and the entity would follow the requirements in Section PS 2120.
  - When the entity chooses to amend existing entity-developed accounting policies for a reason currently allowed in paragraph PS 2120.02 as a change in an accounting policy, the amended policies should be consistent with the Conceptual Framework even if the Conceptual Framework is not yet effective.



Have Other Questions?

More information is available at The Conceptual Framework: Resources to help you prepare and on the project page for Concepts Underlying Financial Performance.

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