PSAB AT A GLANCE

Section PS 2120 - Accounting Changes

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Section PS 2120 - *Accounting Changes*

SCOPE

PS 2120 **applies to** accounting for and disclosing:

- A change in accounting policy;
- A change in accounting estimate; and
- A correction of an error relating to prior period financial statements.

CHANGE IN ACCOUNTING POLICY

- **Accounting policies** are the specific principles and methods applied by a government in preparing its financial statements.
- Accounting policies are presumed to be consistently applied within each accounting period and between one period and the next.
- A change in accounting policy may occur when a government:
  - Conforms to a new Public Sector Accounting Standard;
  - Adopts Public Sector Accounting Standards for the first time; or
  - Considers the change will result in a more appropriate presentation of events / transactions in the financial statements.
- The following are not considered changes in accounting policy:
  - The initial adoption / alternation of an accounting policy required by events / transactions that are clearly different in substance than those that previously occurred;
  - The initial adoption of an accounting policy resulting from events / transactions that occurred for the first time or that were previously immaterial; and
  - A change in classification of an item in the financial statements.
- There are three ways of recognizing a change in accounting policy:
  - Prospective application;
  - Retroactive application with no restatement of prior periods; and
  - Retroactive application with restatement of prior periods.
    - Refer to paragraph PS 2120.06 for more details on each method.
- The standards in Section PS 2120 do not override any specific provisions related to prospective or retroactive application in other Public Sector Accounting Standards.
- When a change in accounting policy is as a result of conforming to a new Public Sector Accounting Standards or as a result of adopting Public Sector Accounting Standards for the first time[1] the new standards may be applied retroactively or prospectively.
- When a choice is available between two or more appropriate principles or methods used in their application and a voluntary change is made, the new accounting policy should be applied retroactively with restatement, unless the necessary financial data cannot be reasonably determined.
  - When a change in accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes must be restated to give effect to the new accounting policy, except when the effect of new accounting policy cannot be reasonably determined for the individual prior periods. When this occurs, an adjustment is made to the opening balance of the accumulated surplus / deficit of the current period or the earliest period appropriate to reflect the cumulative effect of the change on the prior periods.

DISCLOSURE

- The following must be disclosed for each change in accounting policy in the current period:
  - A description of the change;
  - The effect of the change on the financial statements of the current period; and
  - The reason for the change.

[1] That is, when moving from a non-GAAP basis of accounting or in circumstances other than those described in paragraph PS 2120.04.

DISCLOSURE (CONTINUED)

- The following must be disclosed when a change in an accounting policy has been applied retroactively and prior periods have been restated:
  - The fact that the prior periods presented in the financial statements have been restated; and
  - The effect of the change on the prior periods.
- The following must be disclosed when a change in an accounting policy has been applied retroactively but prior periods have not been restated:
  - The fact that the prior periods presented in the financial statements have not been restated; and
  - The cumulative adjustment to the opening balance of the accumulated surplus / deficit of the current period.
- Disclosure must be made of a change in an accounting policy that has not been applied retroactively.
- Disclosure must be made of particulars, including dollar amounts, for each change in an accounting policy. Items cannot be netted when considering materiality.
- Disclosure must be made of a change in an accounting policy that does not have a material effect in the current period but that will likely have a material effect in future periods.

CHANGE IN ACCOUNTING ESTIMATE

- **Changes in estimates** occur as a result of the periodic preparation of financial statements.
- The effect of a change in accounting estimate must be accounted for in:
  - The period of the change, if the change affects the results of that period only; or
  - The period of the change and applicable future periods, if the change affects the financial results of both current and future periods.
- When a change in accounting estimate is rare or unusual and may have an effect on both current and future period financial results, disclosure of the nature and effect on the current period may be desirable.

CORRECTION OF AN ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS

- The amount of the **correction of an error** that impairs the fairness of the financial statements of prior periods must be reported retroactively and comparative information must be restated, unless it is impracticable to do so.

DISCLOSURE

- The following must be disclosed when there has been a correction in the current period of an error in prior period financial statements:
  - A description of the error;
  - The effect of the correction of the error on the financial statements of the current and prior periods; and
  - The fact that the financial statements of the prior periods presented have been restated.

  Disclosure of the effect of the correction of the error on significant items such as change in net debt may also be appropriate depending on the nature of the error.

NOT AN ERROR

- Per paragraph PS 2120.31, when an issue is raised with a government by its auditor in one period but not corrected by the government until a subsequent period, this is not an error for purposes of this Section. Instead, the issue is accounted for in the period in which the correction is made.

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