PSAB At a Glance

Section PS 2500 and 2510: Consolidation

October 2019

Consolidation[1]

Governmental unit

- A governmental unit is a government component, government not-for-profit organization or other government organization. A government business enterprise is not a governmental unit.

Basic principles of consolidation

- Government financial statements must consolidate governmental units line-by-line on a uniform basis of accounting after eliminating inter-governmental unit transactions and balances.
- Transactions and balances between governmental units and government business enterprises are not eliminated (see Section PS 3070, *Investments in Government Business Enterprises*[2]). However, unrealized gains and losses that arise on transactions between governmental units and government business enterprises that remain within the reporting entity must be eliminated.

Basic steps of consolidation

- The basic steps of consolidation are as follows:
  - Accounting policies of governmental units are conformed to those of the government;
  - Balances of assets, liabilities and accumulated surplus / deficit of the governmental units are added together and included in the consolidated Statement of Financial Position for the government reporting entity;
  - Revenues and expenses of the governmental units are added together and reported in the consolidated Statement of Operations and the consolidated Statement of Remeasurement Gains and Losses; and
  - The effects of inter-governmental unit transactions on assets, liabilities, accumulated surplus / deficit, revenues and expenses are eliminated.
- The following effects of transactions between governmental units are required to be eliminated upon consolidation:
  - Inter-governmental unit assets and liabilities, including any investments in governmental units recorded by other governmental units in the form of shares or contributed surplus;
  - Inter-governmental unit revenues and expenses, including transfers and internal charges;
  - Any inter-governmental unit dividends that have been declared; and
  - Unrealized inter-governmental unit gains and losses, including those related to inter-governmental unit sales or transfers of tangible capital assets.

Statements at different dates

- When it is not possible to use governmental unit financial statements for a period that substantially coincides with that of the government's financial statements for the purposes of consolidation, this fact must be disclosed as well as the period covered by the governmental unit financial statements used.
- When the fiscal period of a governmental unit is not the same as that of the government reporting entity, events and transactions of the governmental unit that have occurred during the intervening period and which significantly affect the government reporting entity's financial position or results of operations must be recorded in the government's financial statements.

Non-controlling interest

- The government reporting entity includes a governmental unit in which a non-controlling interest exists, in its financial statements on a proportionate consolidation basis (refer to paragraphs PS 2510.06-.07 for additional guidance).
- The existence and extent of a non-controlling interest in a governmental unit must be disclosed in the government's financial statements.
- **Losses in a governmental unit with a non-controlling interest**
  - When accumulated losses related to the non-controlling interest in a governmental unit exceed the non-controlling interest's share in the capital of the governmental unit, the excess of any further losses otherwise applicable to the non-controlling interest must be allocated only to the government's interest.
  - Subsequent earnings must be allocated entirely to the government's interest until the previously absorbed losses attributable to the non-controlling interest have been recovered.
  - Any accumulated losses accounted for as described above must be disclosed in the government's financial statements.

[1] Includes Section PS 2500, *Basic Principles of Consolidation*, and Section PS 2510, *Additional Areas of Consolidation*.
[2] See also our publication PSAB At a Glance: Section PS 3070 – *Investments in Government Business Enterprises*.

Acquisitions & applying the purchase method

- Acquired governmental units must be consolidated into the government's financial statements line-by-line on a uniform basis of accounting, after inter-governmental unit transactions and balances have been eliminated in accordance with paragraphs PS 2500.08-.18, and after taking into account paragraph PS 2510.31.
- **Determining the purchase cost**
  - The fair value of the consideration given determines the purchase cost of a governmental unit to a government. When the fair value of the consideration is not clearly evident, the purchase cost to the government is the government's share of the fair value of the net assets acquired.
  - The purchase cost and the amounts assigned to assets acquired and liabilities assumed must be determined as of the acquisition date.
  - For the period in which a purchase of a governmental unit occurs, the government financial statements must reflect the government's proportionate share of the results of the acquired governmental unit from the date of acquisition.
- **Allocating the purchase cost**
  - The government's interest in identifiable assets acquired and liabilities assumed must be based on their fair values at the date of acquisition.
  - When there is a difference between the purchase cost and the government's share of the fair value of the net assets of the acquired governmental unit:
    - Any excess of the purchase cost over the government's interest in the identifiable assets acquired and liabilities assumed, based on their fair values, must be accounted for as a purchase premium and recognized as an expense in the period of acquisition.
    - Such that the government's interest in the identifiable assets acquired and liabilities assumed, based on their fair values, exceeds the purchase cost, the amount assigned to identifiable non-monetary assets must be reduced to the extent that the excess is eliminated.
- **Expenses related to the acquisition**
  - Expenses that are incurred directly as a result of an acquisition of a governmental unit accounted for as a purchase must be included as part of the purchase cost.
- **Inter-governmental unit transactions and balances**
  - Any balances between existing governmental units and a newly acquired governmental unit at the date of acquisition must be eliminated upon consolidation.
  - When gains and losses arising from transactions with the newly acquired governmental unit that took place prior to the date of acquisition are included in the carrying value of the assets of an existing governmental unit, these gains and losses are not eliminated unless the transactions were made in contemplation of the acquisition.

Sale of all or part of a government's investment in a governmental unit

- When all or part of a government's investment in a governmental unit is sold, the gain or loss on the sale must be based on the carrying value of the governmental unit's net assets in the consolidated Statement of Financial Position at the date of sale.
- The gain or loss on the sale of all or part of an investment in a governmental unit must be included in the determination of consolidated operating results in the period of sale.
- When a government sells part of its investment in a governmental unit and:
  - Still retains control of the governmental unit, the governmental unit is still part of the government reporting entity and is accounted for on a proportionate consolidation basis with the existence and extent of the non-controlling interest is disclosed.
  - No longer retains control of the governmental unit, the governmental unit no longer forms part of the government reporting entity. If the remaining investment is determined to be a portfolio investment it would be accounted for in accordance with Section PS 3041, *Portfolio Investments,* and Section PS 3450, *Financial Instruments.*[3]

When a government unit becomes a government business enterprise

- When a government unit becomes a government business enterprise it is accounted for by the modified equity method in accordance with Section PS 1300, *Government Reporting Entity*[4].
- When a governmental unit's status changes to a government business enterprise the change cannot:
  - Create revenue; or
  - Result in reporting tangible capital assets that would improve the net financial position of the government reporting entity.
    - Refer to paragraphs PS 2510.46-.49 for more guidance.
- When the government's net investment balance increases / decreases due to a change in the status of a governmental unit to a government business enterprise, the amount of the increase / decrease is accounted for as an adjustment to the opening balance of accumulated surplus / deficit.
- A description of the change, including details of changes to the recorded amounts of individual financial statement items, must be disclosed.

[3] See also our publication PSAB At a Glance: Section PS 3041 – *Portfolio Investments* and our publication PSAB AT A GLANCE: Section PS 3450 – *Financial Instruments*.
[4] See also our publication PSAB At a Glance: Section PS 1300 – *Government Reporting Entity*.

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