

PSAB

At a Glance

Section PS 3070 - Investments in
Government Business
Enterprises

Section PS 3070 - *Investments in Government Business Enterprises*

Government business enterprise

- A government organization that has all of the following characteristics:
 - It is a separate entity with the power to contract in its own name and that can sue and be sued;
 - It has been delegated the financial and operational authority to carry on a business;
 - It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
 - It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
- Refer to Section PS 1300, *Government Reporting Entity*, paragraphs .29-.31 for more guidance on these criteria.

Method of accounting

- Government business enterprises must be accounted for by the modified equity method as stated in paragraph .35 of Section PS 1300, *Government Reporting Entity*.
 - The **modified equity method** of accounting is the same as the equity method of accounting, except that the government business enterprise's accounting principles are not adjusted to conform to the accounting principles of the government.
 - The government adjusts its investment in the government business enterprise on its consolidated Statement of Financial Position and presents the net income of the government business enterprise as a separate item on its consolidated Statement of Operations.
- The modified equity method is applied from the date:
 - The government acquires or creates a government business enterprise;
 - A governmental unit changes in status to become a government business enterprise as described in Section PS 2510, *Additional Areas of Consolidation*; and
 - A government applies Section PS 1300, *Government Reporting Entity*, for the first time.¹

Investment in a government business enterprise

- Is reflected in a government's financial statements under the modified equity method as the cost of the government's investment in the government business enterprise calculated in accordance with paragraphs PS 3070.10-.11, and subsequent to the date the modified equity method first became appropriate, also includes adjustments for the following:
 - The government's proportionate share of the earnings of the government business enterprise after discontinued operations and extraordinary items of the government business enterprise;
 - The government's proportionate share of dividends paid or payable by the government business enterprise;
 - The government's proportionate share of prior period adjustments, such as a change in an accounting policy or a correction of an error relating to prior period financial statements, as well as, capital transactions, accumulated other comprehensive income and cumulative foreign currency translation adjustments of the government business enterprise;
 - The accumulated amortization of any purchase premium and / or fair value increments on depreciable assets related to an acquired government business enterprise;
 - The elimination of any unrealized inter-organizational gains and losses on assets remaining within the government reporting entity at the financial statement date;
 - Any gains or losses arising on inter-organizational bond holdings; and
 - Any impairments in the value of the purchase price discrepancy component of a government's investment in an acquired government business enterprise recognized by the government since acquisition.

Income from an investment in a government business enterprise

- Includes the government's proportionate share of the government business enterprise's earnings, calculated based on the government business enterprise's earnings after discontinued operations and extraordinary items, as well as the following adjustments:
 - The amortization of any purchase premium, in relation to an acquired government business enterprise, over the lesser of its life and 20 years (refer to paragraphs PS 3070.17-.18);
 - The amortization of any fair value increments on depreciable assets, in relation to an acquired government business enterprise, over the useful lives of the related assets (refer to paragraph PS 3070.19);

¹ Paragraph .13 of Section PS 2120, *Accounting Changes*, states that "when a change in an accounting policy is made to conform to new Public Sector Accounting Standards or to adopt Public Sector Accounting Standards for the first time, the new Standards may be applied retroactively or prospectively."



Income from an investment in a government business enterprise (continued)

- The elimination of any unrealized inter-organizational gains and losses on assets remaining within the government reporting entity at the financial statement date (refer to paragraphs PS 3070.29-34);
- Any gains or losses arising on inter-organizational bond holdings (refer to paragraphs PS 3070.35-.38); and
- Any write-downs associated with any impairment in the value of the purchase price discrepancy component of a government's investment in an acquired government business enterprise recognized by the government in the period (refer to paragraphs PS 3070.20-28).
- The government's proportionate share of the government business enterprise's other comprehensive income is reported in the Statement of Remeasurement Gains and Losses.
- The government recognizes income from an investment in a government business enterprise when it is earned by the government business enterprise and not when dividends are declared by the government business enterprise.
- Under the modified equity method, these dividends represent the conversion, first into dividends receivable and then into cash, of the increase in the investment already recognized by the government.

Sale of all or part of an investment in a government business enterprise

- When all or part of a government's investment in a government business enterprise is sold, the cost of the portion of the total investment sold must be calculated on the basis of the carrying value of the investment at the date of sale for the purposes of calculating a gain or loss on the sale of the investment.
- Income from an investment in a government business enterprise would be recognized up to the date of the sale.
- The consolidated operating results in the period of sale must include the gain or loss resulting from the sale of all or part of a government's investment in a government business enterprise.
- When a government disposes of all or a large portion of an acquired government business enterprise, any related unamortized purchase premium and / or fair value increments must be taken into account in determining the gain or loss on disposal.
- Refer to paragraph PS 3070.44 for guidance on when a change in a government's interest in a government business enterprise results in the loss of control and the government's remaining investment meets the definition of a portfolio investment.

Statements at different dates

- When, for purposes of preparing government consolidated financial statements, it is not possible to use financial statements of a government business enterprise for a period which substantially coincides with that of the government's consolidated financial statements, disclosure of this fact and the period covered by the financial statements of the government business enterprise must be included in the government's financial statements.
- When the fiscal periods of the government reporting entity and a government business enterprise are not the same, events relating to or transactions of the government business enterprise which have occurred during the intervening period and that significantly affect the consolidated financial position or results of operations of the government reporting entity must be recorded in the government's consolidated financial statements.

When an organization no longer meets the definition of a government business enterprise

- When a government business enterprise's nature changes so that it no longer meets the definition of a government business enterprise, the organization becomes a governmental unit and is no longer accounted for by the modified equity method, but instead is consolidated in the government's financial statements in accordance with the requirements of Section PS 2500, *Basic Principles of Consolidation*, and Section PS 2510, *Additional Areas of Consolidation*.
- When the change in status of a government business enterprise to a governmental unit is a result of an observable event the government applies both modified equity and consolidation accounting to the organization in the period the event occurs, as appropriate.
- When the change in status of a government business enterprise to a governmental unit is not a result of a specific observable event, but instead occurs over time, a government accounts for the organization as a governmental unit for the reporting period during which the change occurs.
- In the period a government organization no longer meets the definition of a government business enterprise, the effect of conforming its accounting policies to those of the government reporting entity for the purposes of consolidation must be included in the determination of the government's consolidated operating results.
- When the circumstances affecting a government organization change such that it no longer meets the definition of a government business enterprise, the change in accounting treatment would not be applied retroactively. However, the government's financial statements must disclose the resulting change in accounting treatment, the underlying reasons for the change, and the financial effect of the change.



When a government unit becomes a government business enterprise

- When a government unit's nature changes so that it meets the definition of a government business enterprises it is accounted for by the modified equity method.
 - Refer to paragraphs .42-.51 of Section PS 2510, *Additional Areas of Consolidation*, for guidance on accounting for this change².

Presentation

- A government's investment in government business enterprises must be reported separately on the Consolidated Statement of Financial Position.
- Income from investments in government business enterprises must be reported separately on the Consolidated Statement of Operations.
- Other comprehensive income from investments in government business enterprises must be reported separately on the Consolidated Statement of Remeasurement Gains and Losses.

² See also our publication PSAB At a Glance: *Consolidation*.

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