

PSAB

At a Glance

Section PS 1201 - Financial
Statement Presentation

Section PS 1201 - *Financial Statement Presentation*

Effective Date
This Section applies in the period Sections PS 2601, *Foreign Currency Translation*, and PS 3450, *Financial Instruments*, are adopted¹

General reporting principle

- A government's financial statements must be clearly identified and an acknowledgement of the government's responsibility for their preparation must either be included in the government's financial statements or must accompany them.
- Any information required for the fair presentation of a government's financial position, results of operations, remeasurement gains and losses, change in net debt and cash flow must be presented in the financial statements.
- Financial statements must be presented in a form, use terminology and classify items in such a way as to ensure that significant information is readily understandable.
- A comparison of current period amounts with prior period amounts must be presented.
 - Prior period information should be reported on a basis and scope consistent with current period information.
- The bases used in determining the reported amounts of assets and liabilities must be applied consistently. The bases must be disclosed if they are not self-evident.
 - A change to the bases used would only occur when it results in more appropriate presentation.
 - Refer to PS 2120, *Accounting Changes*, for guidance and disclosure on changes in accounting policies.
- Financial statements must be issued on a timely basis.
- The auditor's report must be appended to the financial statements when they are subject to an independent audit. When financial statements are unaudited they must be clearly identified as such.
- The substance of transactions and events must be presented in the financial statements.
 - When legislation requires certain transactions / balances be accounted for in a manner that does not reflect their substances, special purpose financial statements / reports would be prepared to meet the legislative requirements.

Standards of presentation and disclosure

Components of financial statements

- **Financial statements include:**
 - A Statement of Financial Position
 - A Statement of Operations
 - A Statement of Remeasurement Gains and Losses
 - A Statement of Change in Net Debt
 - A Statement of Cash Flow
 - Notes
 - Schedules
- Notes and schedules integral to the financial statements must be clearly identified. These notes and schedules have the same significance as the information included in the body of the statements. Notes and supporting schedules must not be used as a substitute for proper accounting treatment.

Reporting financial position

- The Statement of Financial Position must report net debt and the accumulated surplus / deficit. Together these two indicators explain the government's financial position at the end of the reporting period.
 - Liabilities and financial assets must be reported in the Statement of Financial Position. The difference between them is reported as the measure of the government's net debt.
 - The Statement of Financial Position must report non-financial assets below the net debt indicator. The sum of the government's net debt and its non-financial assets is accounted for and reported as the accumulate surplus / deficit of the government at the end of the accounting period. This represents the government's net assets.
- A government must report the following additional information about the composition of its accumulate surplus / deficit at the financial statement date:
 - The accumulated operating surplus / deficit; and
 - The accumulated remeasurement gains and losses.
- Information on contractual rights, contractual obligations, contingent assets and contingent liabilities must also be provided.

¹ **Government organizations** - must adopt Sections PS 2601, PS 3450 and PS 1201 for fiscal periods beginning on or after April 1, 2012.
Governments - must adopt Sections PS 2601, PS 3450 and PS 1201 for fiscal periods beginning on or after April 1, 2022. Earlier adoption is permitted.

Liabilities

- Must be reported in the Statement of Financial Position segregated by main classifications such as:
 - Accounts payable and accrued liabilities;
 - Liabilities for employee future benefits;
 - Deferred revenue;
 - Borrowings; and
 - Loans from other governments.
- Adequate information on the nature and terms of the government's liabilities must be disclosed.

Assets

Financial assets

- Must be reported in the Statement of Financial Position segregated by main classifications such as:
 - Cash and cash equivalents;
 - Revenues receivable;
 - Inventories for resale and other assets held for sale that meet the requirements of paragraph PS 1201.055;
 - Loans to other governments;
 - Other loans;
 - Portfolio investments;
 - Investments in government business enterprises; and
 - Investments in business partnerships.
- Adequate information on the nature and terms of the government's financial assets together with any valuation allowance must be disclosed.
- To reflect financial assets at their net recoverable or other appropriate value, valuation allowances must be used.
- When all the following criteria are met an asset held for sale must be recognized as a financial asset:
 - The government body, management board or an individual with the appropriate level of authority commits the government to selling the asset before the date of the financial statements;
 - The asset is in a condition to be sold;
 - The asset is publicly seen to be for sale;
 - An active market for the asset exists;
 - A plan for selling the asset is in place; and
 - The sale of the asset to a purchaser external to the government reporting entity is reasonably anticipated to be completed within one year of the financial statement date.

Non-financial assets

- Must be reported in the Statement of Financial Position segregated by main classifications such as:
 - Tangible capital assets;
 - Inventories held for consumption or use; and
 - Prepaid expenses.
- The nature of government non-financial assets must be disclosed in the financial statements as assets that are normally employed to provide future services.
- Any asset that meets the following criteria must be recognized as a non-financial asset:
 - It is not held for sale as described in paragraph PS 1201.055; and
 - It would otherwise meet the definition of a tangible capital asset except for its ability to contribute to the net cash inflows of the government;
- The fact that works of art and historical treasures, developed or inherited intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, are not recognized in government financial statements must be disclosed.

Contingent assets and contingent liabilities

- The result of existing conditions or situations involving uncertainty that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset, the reduction of a liability, the loss or impairment of an asset, or the incurrence of a liability (refer to Sections PS 3300, *Contingent Liabilities*, and PS 3320, *Contingent Assets*, for more guidance).

Contractual obligations

- Obligations of a government to others that will become liabilities when the terms of those contracts / agreements are met (refer to Section PS 3390, *Contractual Obligations*, for more guidance).

Contractual rights

- Rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future (refer to Section PS 3380, *Contractual Rights*, for more guidance).

Reporting changes in financial position

- Together the Statement of Operations, the Statement of Remeasurement Gains and Losses, the Statement of Change in Net Debt and the Statement of Cash Flows explain the change in a government's liabilities and assets in the accounting period.

Reporting operations

- The Statement of Operations must:
 - Report revenues, other than remeasurement gains, of the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments;
 - Report expense, other than remeasurement losses, of the period by function or major program;
 - Account for the difference between revenues and expenses reported in the Statement of Operations in the period, as the measure of the operating surplus / deficit for the period; and
 - Report the accumulated operating surplus / deficit at the beginning and end of the period, unless these figures are reconciled with the surplus / deficit for the period on a separate statement.

Revenues

- Revenues, including gains, must be recognized in the period when the transactions / events that gave rise to the revenues occurred.
- Gains are usually recognized when they are realized in the Statement of Operations.
- When items are not practicably measurable until cash is received they are accounted for at that time.
- The gross amount of revenues must be disclosed in the financial statements.
 - Except for tax concessions as described in Section PS 3510, *Tax Revenue*.

Expenses

- The gross amount of expenses must be disclosed in the financial statements.
- Disclosure of the expense of the accounting period by object must be provided in the financial statements.

Losses arising from asset impairment and changes in valuation allowances

- Must be recognized as expenses in the Statement of Operations in the accounting period.
- A change in the value of a financial asset attributable to a remeasurement gain / loss must be reported in the Statement of Remeasurement Gains and Losses.

Reporting remeasurement gains and losses

- The Statement of Remeasurement Gains and Losses must report:
 - Accumulated remeasurement gains and losses at the beginning of the period;
 - Remeasurement gains and losses during the period, distinguishing between:
 - Amounts that arose during the period; and
 - Amounts that were reclassified to the Statement of Operations during the period;
 - Any other comprehensive income that arises when a government includes the results of government business enterprises and business partnerships in its summary financial statements; and
 - Accumulated remeasurement gains and losses at the end of the period.
- Remeasurement gains and losses during the period that are reported in the Statement of Remeasurement Gains and Losses are distinguished between:
 - Exchange gains and losses on items in the amortized cost category that are denominated in a foreign currency; and
 - Changes in the fair value of:
 - Derivatives;
 - Portfolio investments in equity instruments quoted in an active market; and
 - Financial instruments designated to the fair value category.
 - No separate disclosure is made of the exchange gain or loss for an item designated in the fair value category that is denominated in a foreign currency.

Reporting changes in net debt

- The Statement of Changes in Net Debt must report:
 - The extent to which expenditures of the accounting period are met by the revenues recognized in operations for the period; and
 - The extent to which net debt changed due to net remeasurement gains and losses in the accounting period.
 - The acquisition of tangible capital assets in the accounting period.
 - Other significant items explaining the difference between the operating surplus / deficit for the accounting period and the change in net debt in the period (i.e. amortization on tangible capital assets). Refer to paragraph PS 1201.101 for additional examples.
 - Net debt at both the beginning and end of the accounting period.
- When a government's financial assets exceed its liabilities a government refers to this statement as the Statement of Changes in Net Financial Assets instead of the Statement of Changes in Net Debt.

Reporting cash flows

- The Statement of Cash Flow must report:
 - How a government generated and used cash and cash equivalents in the accounting period.
 - The change in cash and cash equivalents in the period.
 - The cash and cash equivalents both at the beginning and end of the accounting period.
 - Cash flows during the period classified by operating, capital, investing and financing activities.
- Cash flows from operating activities can be reported using either the direct method or the indirect method (refer to paragraphs PS 1201.112-.113 for more guidance).
 - When a government uses the indirect method and there is a significant difference between interest revenue or expense recognized in the Statement of Operations and the interest receipt or payment recognized in the Statement of Cash Flows the amount of this difference and the reason for it must be disclosed in the financial statements.
 - Major classes of gross cash receipts and gross cash payments that arise from capital, investing and financing activities, except where cash flows described in paragraphs PS 1201.120-.121 (described below) are presented on a net basis, must be reported separately in the Statement of Cash Flow
 - Cash flows resulting from the following operating, capital, investing or financing activities may be presented on a net basis:
 - When cash flows from cash receipts collected and payments made on behalf of entities external to the government reporting entity, including taxpayers and beneficiaries, reflect the activities of the external party instead of those of the government; and
 - Refer to paragraph PS 1201.122 for examples.
 - Cash receipts and payments for items with rapid turnover, large amounts and short maturities.
 - Refer to paragraph PS 1201.123 for examples.
 - Cash flows resulting from interest paid on debt issued on behalf of a government business enterprise and the interest received from that government business enterprise must be presented on a net basis when the debt meets the criteria in paragraph PS 3230.12, *Long-Term Debt*.
 - When capital, investing and financing transactions do not use cash or cash equivalents, such transactions must be excluded from the Statement of Cash Flow. Instead, these transactions must be disclosed in the financial statements in a way that provides all the relevant information about these capital, investing and financing activities.
 - The components of cash and cash equivalents must be disclosed in the financial statements and a reconciliation of the amounts in the Statement of Cash Flow to the equivalent items presented in the Statement of Financial Position must be provided. The policy the government adopted that determines the composition of cash and cash equivalents must be disclosed.

Reporting legislative control and financial accountability

Comparison of actual and budgeted results

- A comparison of the results for the accounting period to those originally planned must be presented in the Statement of Operations. The planned results presented must be for the same scope of activities and on a basis consistent with that used for actual results.
- A comparison of the items that comprise the change in net debt for the accounting period, as well as, the change in net debt for the period, with the figures originally planned must be presented in the Statement of Net Debt. The planned amounts presented must be for the same scope of activities and on a basis consistent with that used for actual results.

Reporting on legislative authority

- Information showing where a government has exceeded its revenue, borrowing, investing, expense or expenditure authority limits must be disclosed in the financial statements.

Reporting on funds and reserves

- Funds and reserves are disclosed in accordance with the guidance provided in PSG-4, *Funds and Reserves*.

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