# PSAB At a Glance

Section PS 3050 - Loans Receivable

# Section PS 3050 – *Loans Receivable*

## Loan receivable

- A loan receivable is a financial asset (as defined in paragraph .40 of Section PS 1000, *Financial Statement Concepts*) of a government (the lender) represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, usually with interest.

## Loans to be repaid through future appropriations

- When a government makes a loan to a borrower and the government expects to recover the amount of the loan from future appropriations that the government gives to the borrower, the loan does not meet the definition of a financial asset since the government does not receive any resources from the loan transaction that it can use to discharge its existing liabilities or finance its future operations.
- As a result, in the period when a direct relationship can be established between the government's funding to the borrower and the repayment of the loan, the amount of the loan that is expected to be recovered from future operations must be accounted for as an expense in the Statement of Operations.
  - Refer to paragraphs PS 3050.13-.15 for guidance on determining whether a direct relationship exists.
- When a repayment is received on a loan or portion of a loan that was treated as a grant (i.e. was originally expensed), the repayment should be offset against the related expense.

## Forgivable loans

- The terms of a forgivable loan agreement include conditions under which the principal and any accrued interest would be forgiven.
- When a government advances an amount with forgivable conditions, unless it meets the definition of a loan receivable and there is sufficient evidence of a reasonable expectation of its recovery, it must be accounted for as a grant.
- Conversely, a conditional grant contains conditions that can trigger repayment and thus it may be recoverable. As a result, it must be accounted for in accordance with Section PS 3410, *Government Transfers*.

## Loans with significant concessionary terms

- When the terms associated with a loan are so concessionary that in substance all or part of the loan is in the nature of a grant, at the time the loan is made, the grant portion of the transaction must be recognized as an expense.
  - Refer to paragraph PS 3050.22 for additional guidance on how to account for this type of transaction.
- When present value techniques are used to recognize a portion of a loan as a grant, the value of the loan recorded at the date of issue must be its face value discounted by the amount of the grant portion. The amount of the loan discount must be amortized to revenue in a rational and systematic manner over the term of the loan.
  - The loan discount is amortized using the effective interest rate method[1].
  - The amortization of the discount is recorded as an increase in the loan balance and a credit to revenue.

[1] Per paragraph PS 3050.63 the requirement to apply the effective interest method applies in the period Section PS 3450, *Financial Instruments*, is adopted.

## Recognition

- A government recognizes a loan receivable in its financial statements when:
  - The government assumes the risks associated with, and acquires the right to receive, repayment of principal and any related payments of interest; and
  - The loan amount can be reliably measured.
- This would normally occur at the time the government disburses the funds, exchanges other assets or assumes liabilities.
- A government removes a loan receivable from its financial statements when:
  - It has been repaid;
  - The government has transferred the risks and rewards associated with the loan;
  - The right to repayment has expired or been waived; or
  - The loan is written off.

## Valuation

- Initially, a government records a loan receivable in its financial statements at cost.
  - Refer to paragraph PS 3050.31 for additional guidance on cost.
- Subsequently, the government uses a valuation allowance to reflect the loan receivable at the lower of its cost and net realizable value.
  - Refer to paragraphs PS 3050.32-34 for additional guidance on when valuation allowances should be used and how to determine the amount of the valuation allowance.
- The Statement of Financial Position reports the loan receivable net of its related valuation allowance.
- When there is a change in a valuation allowance it is recorded as an expense in the Statement of Operations.

## Write-offs

- When there is no realistic prospect of recovery and the amount of the loss is known with sufficient precision, a loan receivable must be reduced by the amount of the loss.
- A write-off cannot be reversed.

## Recognition of interest revenue

- Interest revenue on a loan receivable is recognized when earned.
- When the collectability of either the loan principal or interest is no longer reasonably assured, interest revenue should stop being accrued.
- When this situation occurs for concessionary loans, amortization of the loan discount should also stop.
- In addition, a valuation allowance should be set up for any previously accrued but uncollected interest for which collection is doubtful or else the amount should be written off.
- Any interest earned on a loan that is recoverable only through future appropriations must be offset against the related expense.

## Restructuring

- When a loan is restructured, any costs of concessions related to principal or interest previously accrued must be recognized at the time of restructuring as an expense in the Statement of Operations.
- In addition, interest on the restructuring of a loan receivable cannot be capitalized unless its recovery over the term of the loan is reasonably assured.

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