

PSAB Update

September 13th, 2017

The PSA Handbook is the primary authoritative source of public sector GAAP.

The opinions stated in the presentation are those of the author and do not necessarily reflect the views of PSAB. Official positions of PSAB are established only after extensive public due process.

Objective

Outline key accounting principles

Provide insight into key Board decisions

Outline next steps in each project

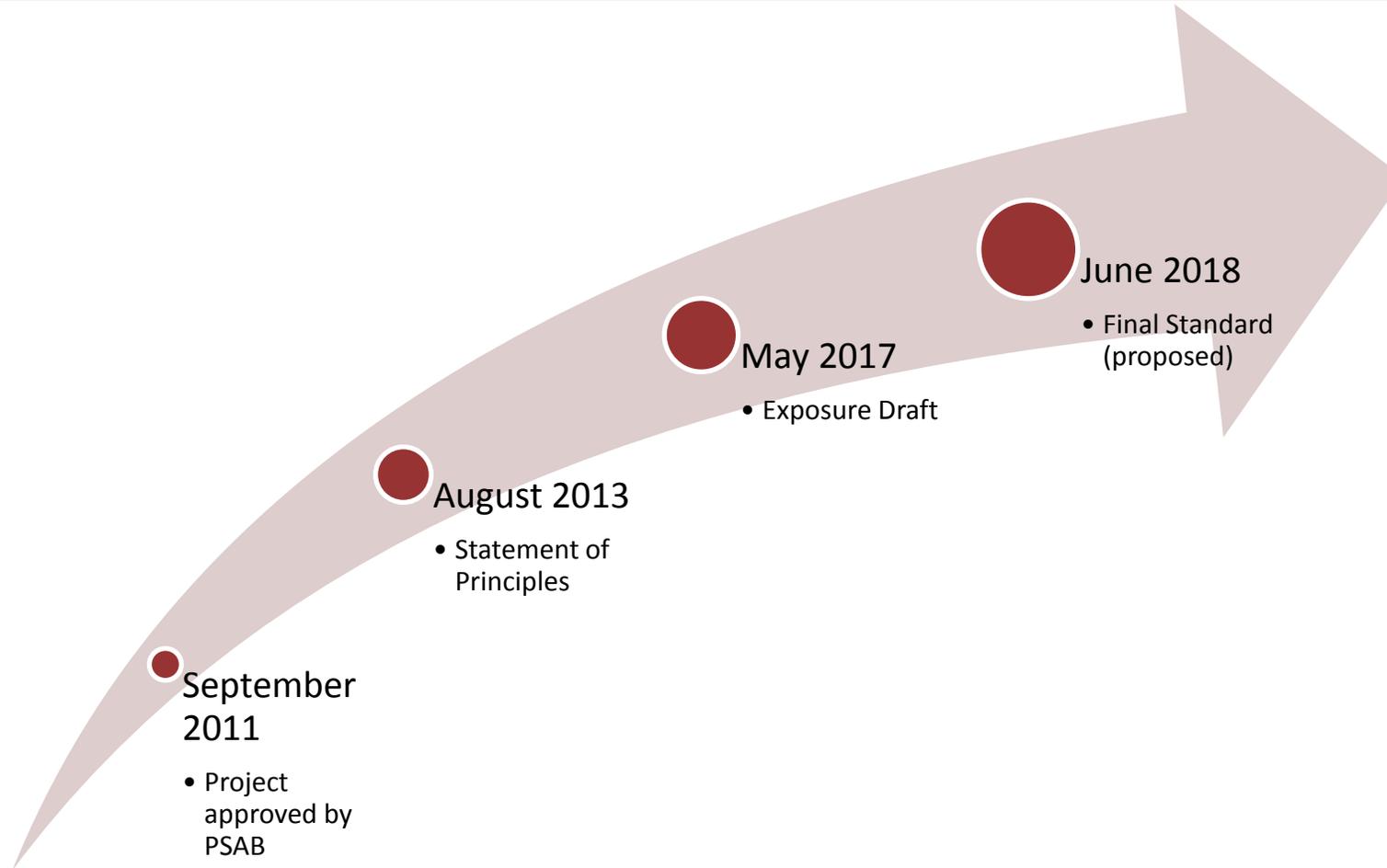
2017-18 Work Plan

Current Projects	June 2017	September 2017	December 2017	March 2018
Conceptual Framework			SOP	
Asset Retirement Obligations				FS
Revenue				
Financial Instruments		DI		
Public Private Partnerships	SOP			ED
Employment Benefits		ITC		
International Strategy				CP
Not-for-Profit Strategy			DI	

Revenue



Project Timeline - Revenue



Key Impacts

Revenue recognition may be accelerated or deferred

New estimates and judgments will be required

Revenue may be recognized at a point in time or over time

Overview

Accounting Principles

Scope

Recognition (exchange transaction)

- Performance obligation

- Identify distinct performance obligations

- Allocate transaction price

- Recognize revenue

Recognition (unilateral transaction)

Principles – Scope

Revenues

Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period.

Out of scope



Principles – Recognition (Exchange)



Performance obligation

Enforceable promises to provide goods or services to a payor as a result of an exchange transaction

Principles – Recognition (Exchange)

Key terms

Performance obligation

Enforceable promises to provide goods or services to a payor as a result of an exchange transaction

Examples – does a performance obligation exist?

Example 1

Province of British Columbia issues a drivers license to one of its citizens for \$120.

Example 2

City of Toronto provides waste collection services to its citizens. Citizens pay a monthly fee. No contract is signed.

Example 3

City of Edmonton collects revenues from parking tickets issued to citizens in violation of parking regulations.

Principles – Recognition (Exchange)

Step Two

Is there more than one distinct performance obligation?

A public sector entity should evaluate the goods and services it has promised to identify which goods or services are distinct and should be accounted for separately.

A good or service is distinct if either of the following criteria are met:

The public sector entity, or another entity, regularly offers the good or service separately

The payor can benefit from the good or service either on its own or together with other resources that are readily available to the payor

Principles – Recognition (Exchange)

Step Three

Allocate the transaction price to each distinct performance obligation

A public sector entity should recognize as revenue the portion of the transaction price allocated to the performance obligation that has been satisfied

Allocation methodologies

Primary

Stand alone
selling price

Secondary approaches

Expected cost

Residual approach

Adjusted market
assessment

Principles – Recognition (Exchange)

Step Four

Recognize revenue

Revenue should be recognized when the public sector entity satisfies the performance obligation by delivering the good or service.

Recognition

Point in time

Period of time

A performance obligation is satisfied when a payor has control of the benefits associated with the good or service

Principles – Recognition (Exchange)

Example – point in time or over time

A payor purchases a five-year driver's license. The payor promises to pay \$200 for a five-year license.

The public sector entity determines that its promise to the payor is to issue a license, if approved. The license will provide the payor with the right to drive. The payor holds the license and has discretion to use it once the public sector entity has made it available.

Does a performance obligation exist?

If a performance obligation exists, when is it satisfied?

Principles – Recognition (Exchange)

Example – point in time or over time

A community centre has a fitness centre that offers one-month or twelve-month passes to its fitness centre. A payor purchases a twelve-month pass that provides the payor with unlimited access to the fitness centre for the year.

The public sector entity's promise to the payor is to provide access to the fitness centre when the payor wishes. At transaction inception, the fitness pass is issued. At this point, the payor has the ability to use the fitness centre.

Does a performance obligation exist?

If a performance obligation exists, when is it satisfied?

Overview

Accounting Principles

Scope

Recognition (exchange transaction)

- Performance obligation

- Identify distinct performance obligations

- Allocate transaction price

- Recognize revenue

Recognition (unilateral transaction)

Principles – Recognition (Unilateral)

Step One

Recognize revenue

Recognize revenue when public sector entity:

- has authority to retain inflow of economic resource;
- identifies a past transaction giving rise to an asset

Unilateral transaction

Unilateral revenues increase the economic resources of a public sector entity without a direct transfer of goods or services to a payor.

Next steps

Next steps

Review stakeholder comment

Comments from stakeholders will be reviewed and incorporated as necessary into the final standard

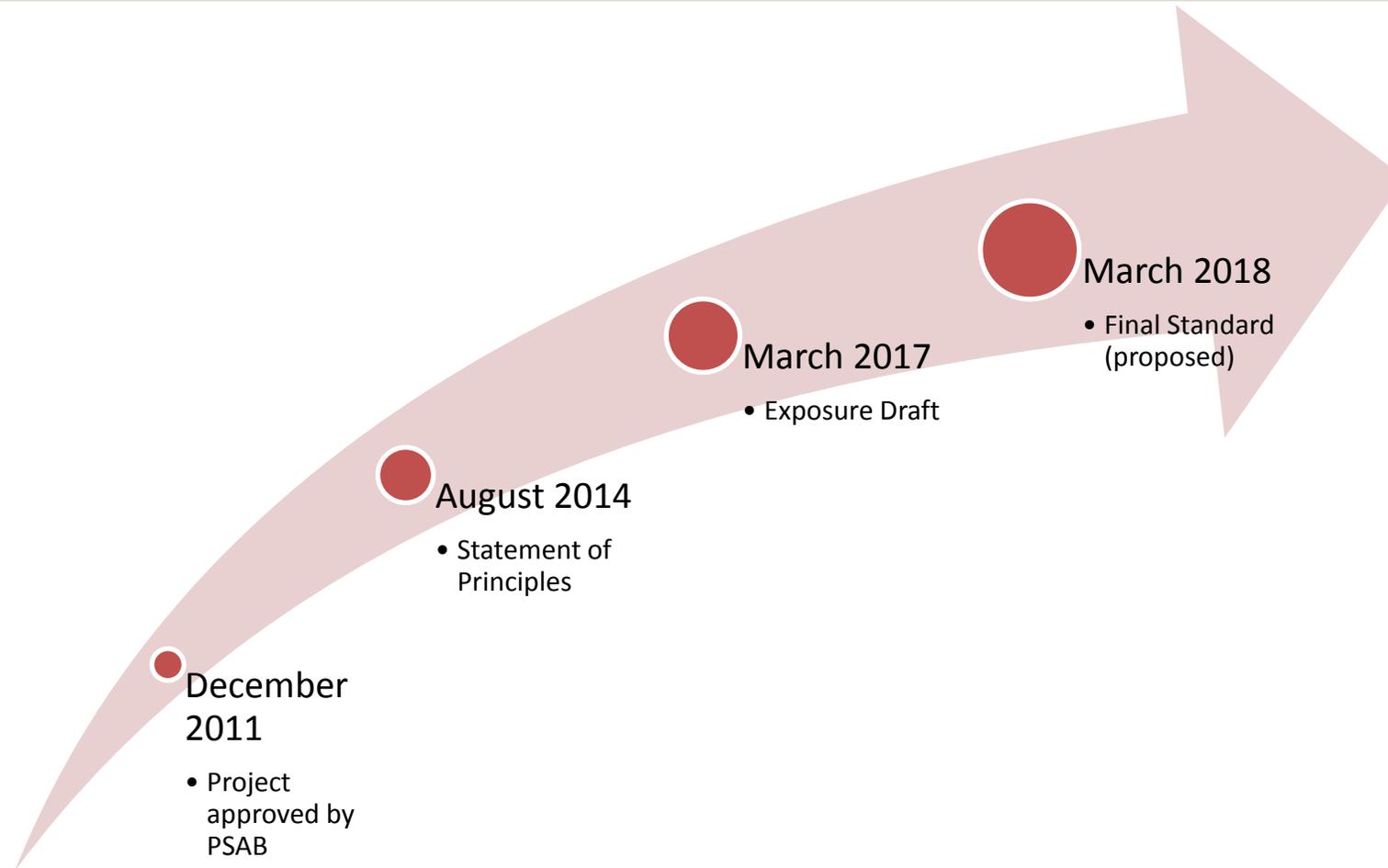
Present final standard to
PSAB

Final standard will be presented to the Board for their approval and issued as a final standard

Asset Retirement Obligations



Project Timeline – Asset Retirement Obligations



Key impacts

Review current accounting for asset retirement obligations

Determine whether there are unrecorded liabilities

Estimate future cash flows, determining discount rates and other inputs in the liability measurement

Overview

Accounting Principles

Scope

Recognition (obligation)

Recognition (costs)

Measurement

Principles – Scope

Asset retirement obligation

A legal obligation associated with the retirement of tangible capital assets

Scope considerations

Which tangible capital assets

- controlled by the public sector
- In productive use, or not longer in productive use
- Includes leased tangible capital assets

Scope includes

Solid waste landfill closure and post closure liabilities, PS 3270

Asbestos

Principles – Recognition (Obligation)

An asset retirement obligation is recognized when:

There is a legal obligation to incur retirement costs;

The past transaction giving rise to the liability has occurred;

It is expected future economic benefit will be given up; and

A reasonable estimate of the amount can be made.

Characteristics of a liability:

The embody a duty or responsibility to others, leaving a government little discretion to avoid settlement;

The duty or responsibility entails settlement by future transfer of assets, provision of goods or services, or other form of economic settlement; and

The transaction obligating the government has occurred.

Principles – Recognition (Obligation)

An asset retirement obligation is recognized when:

There is a legal obligation to incur retirement costs;

The past transaction giving rise to the liability has occurred;

It is expected future economic benefit will be given up; and

A reasonable estimate of the amount can be made.

A legal obligation can result from:

Agreements or contracts

Legislation of another government

A government's own legislation

Promissory estoppel

Principles – Recognition (Obligation)

An asset retirement obligation is recognized when:

There is a legal obligation to incur retirement costs;

The past transaction giving rise to the liability has occurred;

It is expected future economic benefit will be given up; and

A reasonable estimate of the amount can be made.

A liability can be incurred due to:

The acquisition, construction or development of a tangible capital asset

Normal use of a tangible capital asset

Principles – Recognition (costs)

Recognition of asset retirement costs

Initial

Upon recognition of an asset retirement obligation, an asset retirement cost is recognized by increasing the carrying amount of the related tangible capital asset

Subsequent

Asset retirement costs are recognized as expense in a rational and systematic manner

Example - components

The Province of Manitoba operates a transformer station (network) to be retired after a 50-year period for which its power transformers (component) need to be retired every 25 years.

Over what period should the retirement obligation associated with the transformers be amortized?

Principles – Measurement

Measurement

Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire the tangible capital asset.

Considerations

Which costs
are included?

Estimation
technique

Discount rate

What
information is
used?

Next steps

Next steps

Review stakeholder comment

Comments from stakeholders will be reviewed and incorporated as necessary into the final standard

Present final standard to
PSAB

Final standard will be presented to the Board for their approval and issued as a final standard

Employment Benefits



Project Plan

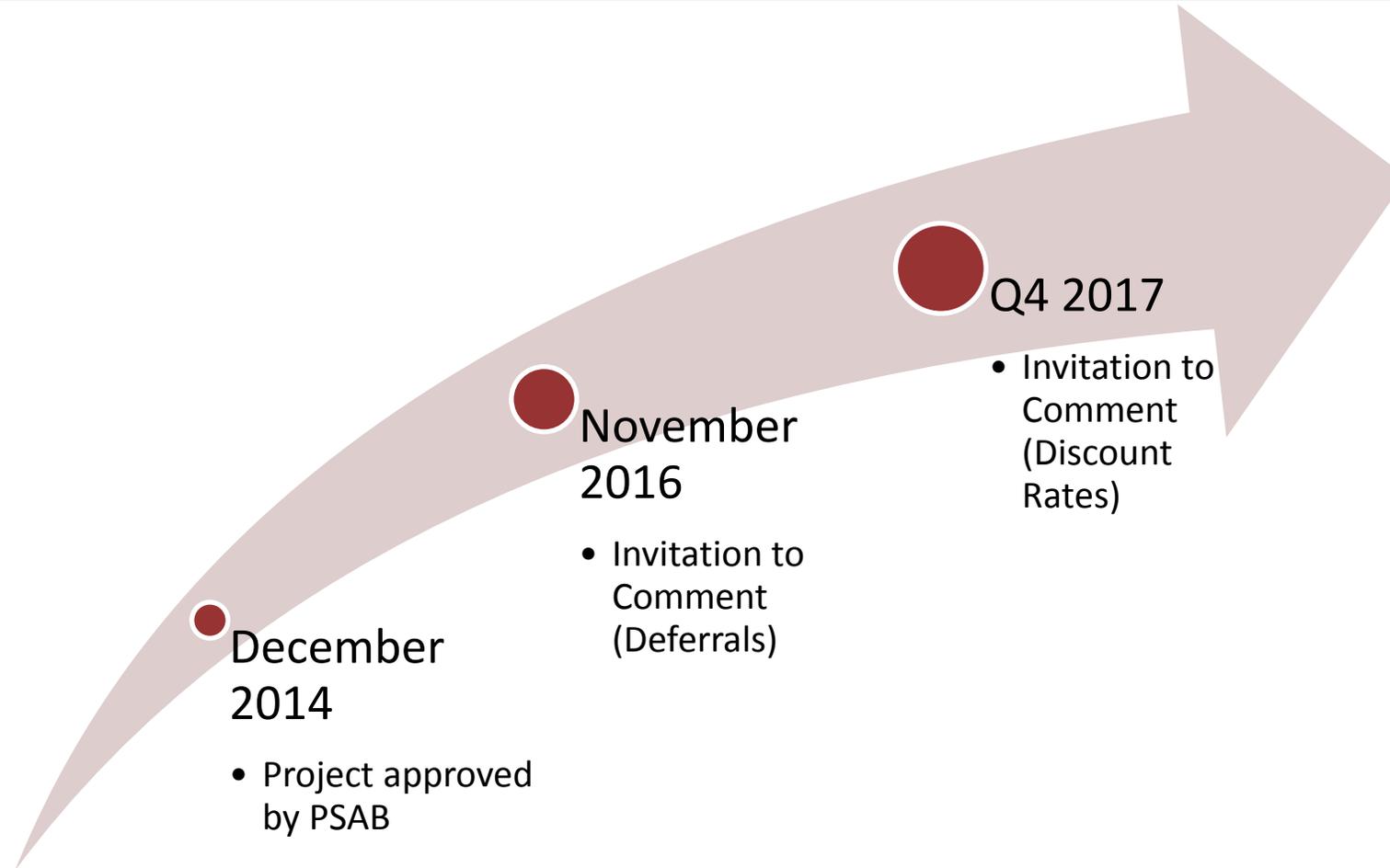
Accounting

- Issues: deferral provisions and discount rates
- Output: potential amendments to Sections PS 3250 and PS 3255

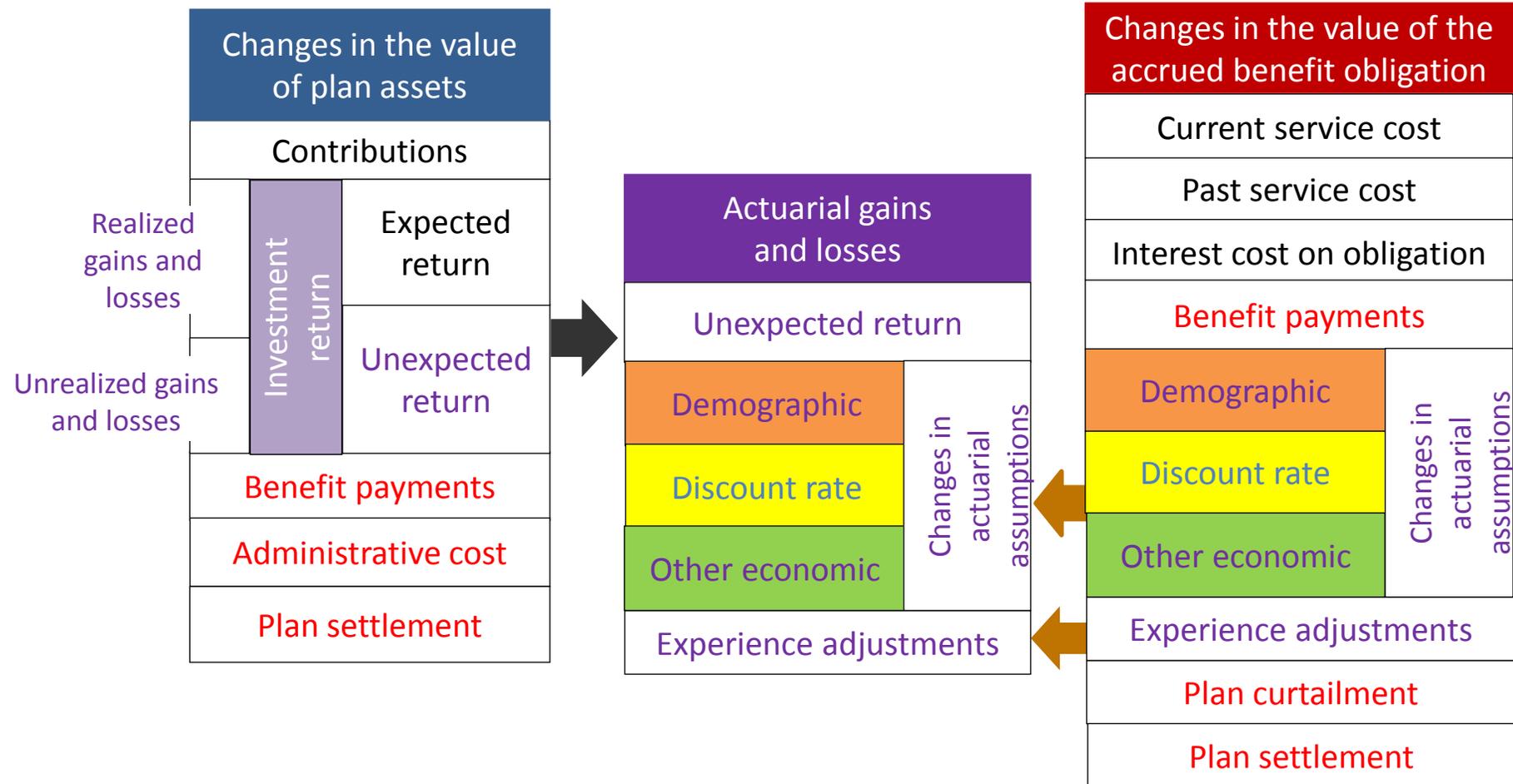
Benefit Plans

- Issues: non-traditional and multi-employer defined benefit plans, others issues and improvements
- Output: new employment benefits standard
- Withdrawal of Sections PS 3250 and PS 3255

Project Timeline – Employee Benefits



Invitation to comment – ITC 1: Deferrals



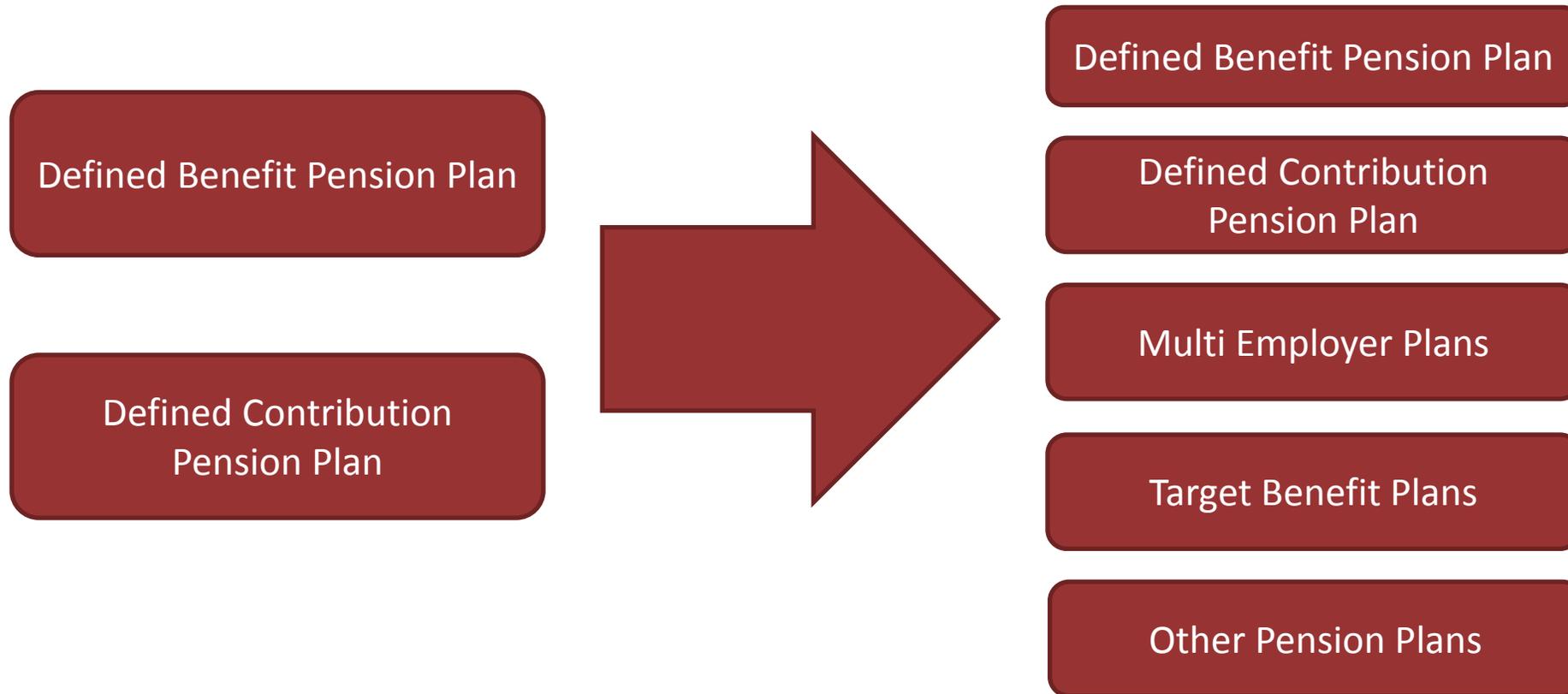
Invitation to comment – ITC 2: Discount Rates

- The role of discount rates
 - Benefit obligation is often incurred years before the payments are due
 - need to calculate the value of the obligation at the reporting date



Invitation to comment – ITC 3: Non-Traditional Plans

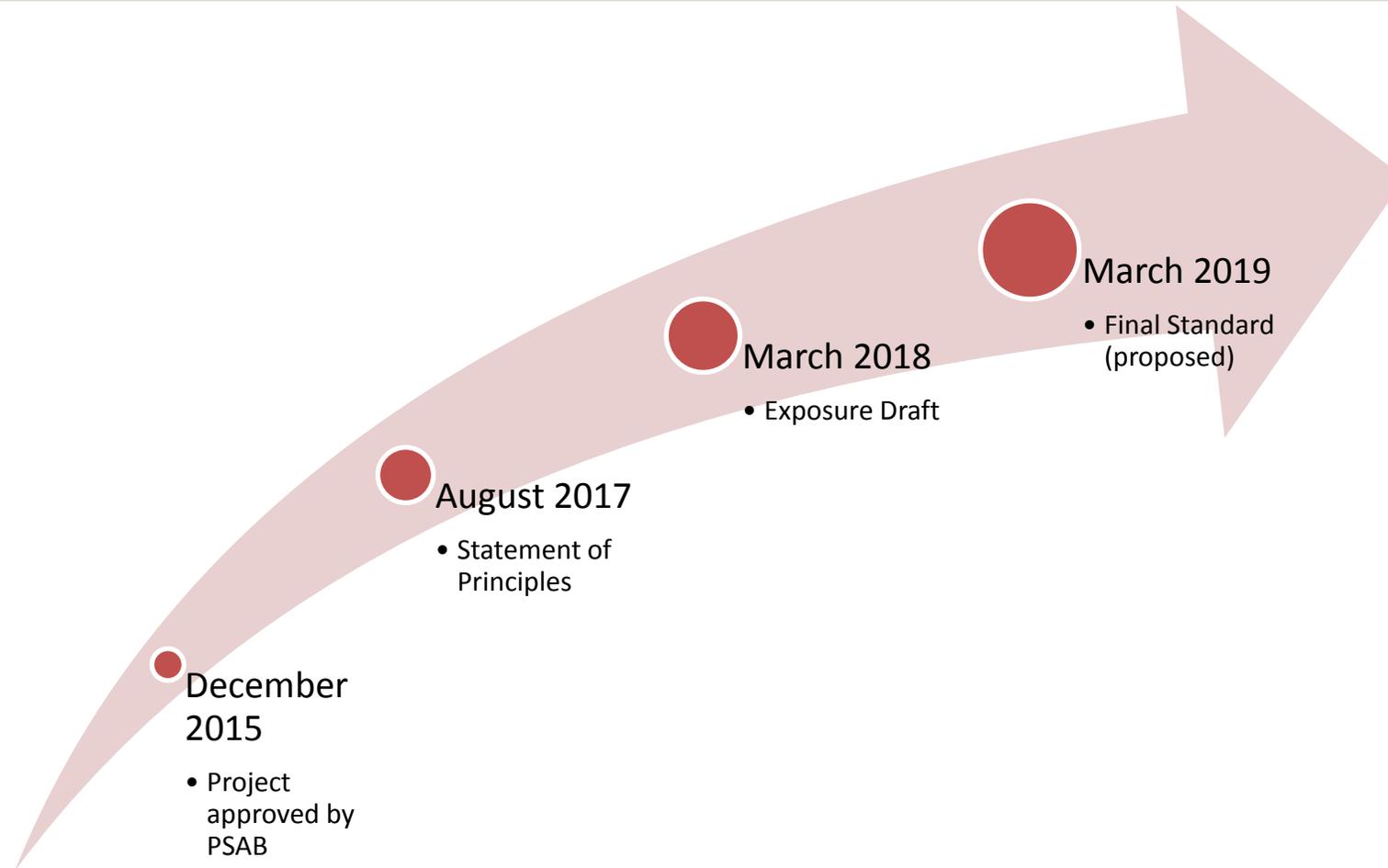
- Evolution in types of post employment benefit plans



Public Private Partnerships



Project Timeline – Public Private Partnerships



Key impacts

Recognition of public private partnership
infrastructure

New estimates and judgments will be required

Overview

Accounting Principles

Scope

Recognition

Credit classification

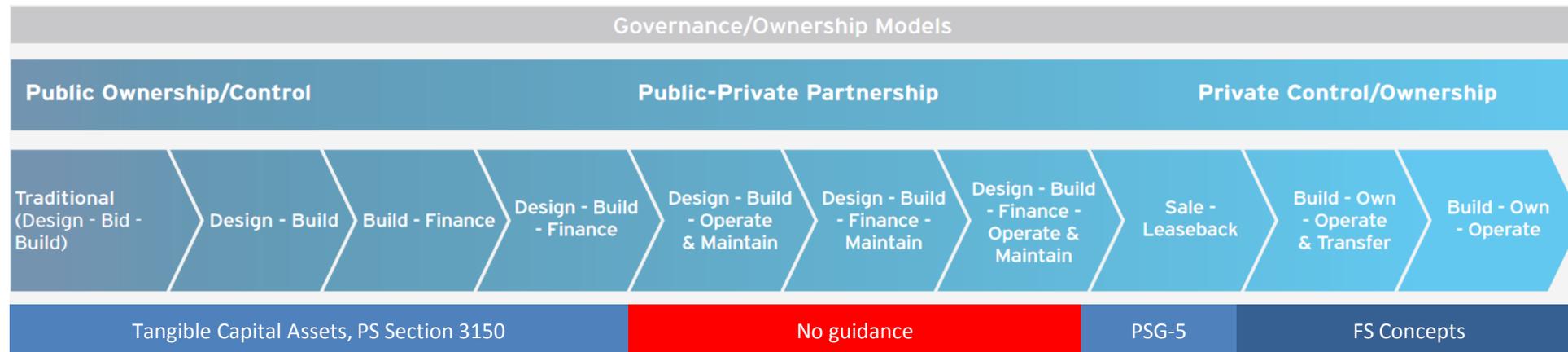
Measurement

Principles – Scope

Public private partnership

A performance based arrangement:

- for infrastructure;
- procured by a public entity with a private entity;
- with an allocation of responsibilities for, and risks of, the infrastructure both before and after the time the infrastructure is put into use; and
- with private capital at risk



Principles – Recognition

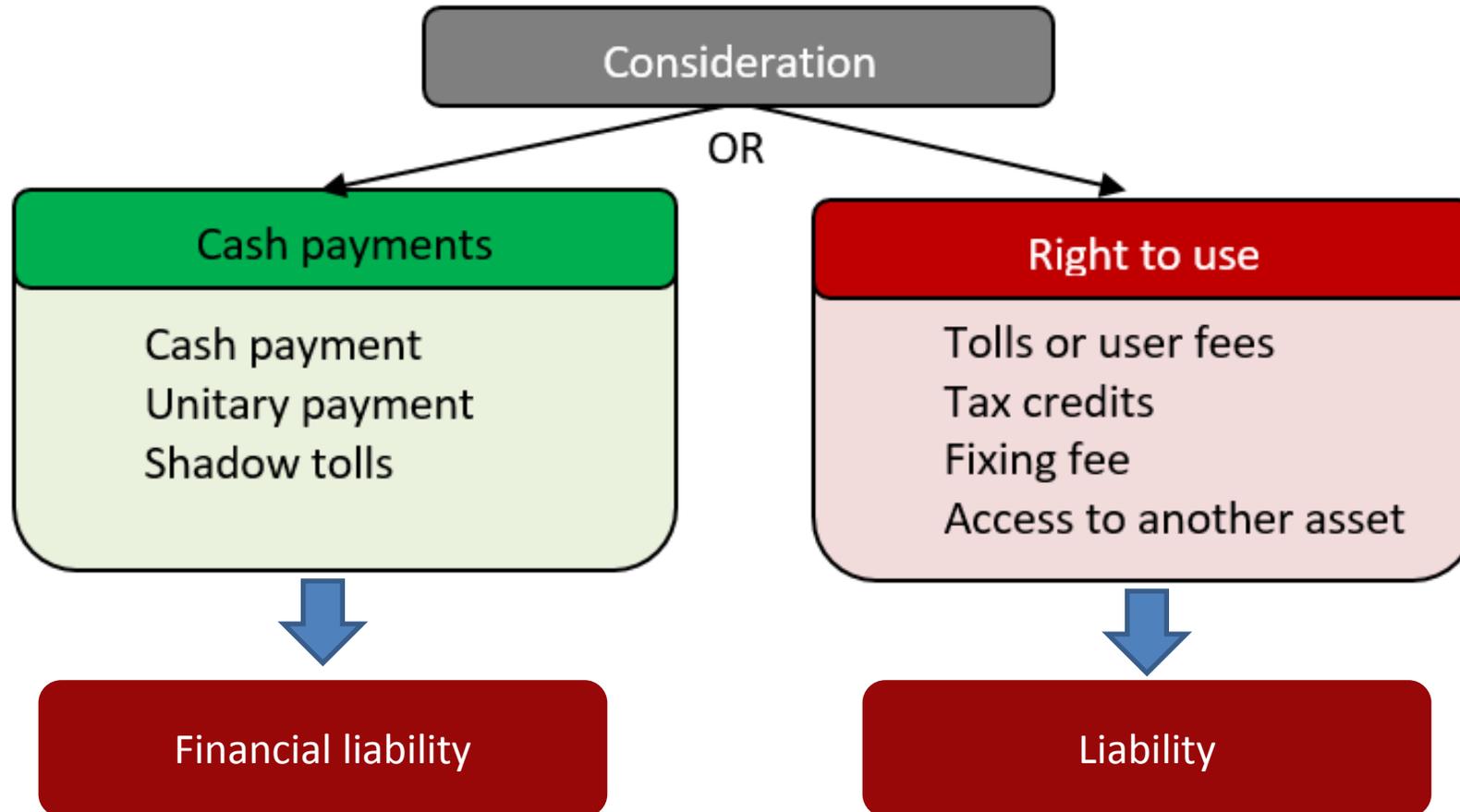
Infrastructure is recognized when the public sector entity controls:

the purpose and use of the infrastructure;

access to the infrastructure and at what price, if any, the private sector can charge to provide an associated service; and

any significant residual interest in the infrastructure at the end of the term of the arrangement.

Principles – Credit classification



Principles – Measurement

Measurement

Acquired infrastructure

Initial measurement of the acquired infrastructure is at its cost to the public sector entity

Existing infrastructure

Initial measurement of the existing infrastructure is at its carrying amount

Next steps

Next steps

Review stakeholder comment

Comments from stakeholders will be reviewed and incorporated as necessary into the exposure draft

Present exposure to PSAB

Exposure draft will be presented to the Board for their approval and issued as a for comment

International



International Strategy

Strategic Plan – Review our approach to International Public Sector Accounting Standards

Conduct research on the differences between Canadian Public Sector Accounting Standards and International Public Sector Accounting Standards

Learn about experiences of other jurisdictions that have elected to follow International Public Sector Accounting Standards

Issue a public consultation paper to get the opinion of stakeholders'

Develop options for our international strategy

For more information, visit www.frascanada.ca

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