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PSAS: *Government transfers — what you need to know*

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Overview

This summary will provide users with an understanding of the significant recognition, presentation and disclosure requirements of the standard.

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A Scope

Section PS 3410 *Government Transfers* establishes guidance on the recognition, presentation and disclosure of government transfers made to individuals, organizations and other governments. The standard provides guidance specifically from the perspectives of both transferring governments and recipient governments.

“Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:

- a receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;*
- b expect to be repaid in the future, as would be expected in a loan; or*
- c expect a direct financial return, as would be expected in an investment.”*

Although negotiations regarding transfer terms generally occur, government transfers are ultimately discretionary transfers and are completely under the direction of the transferring government. The transferring government has the ability to impose transfer terms called **eligibility criteria** and **stipulations**, which are defined in detail in the glossary at the end of the standard. Eligibility criteria are terms imposed by a transferring government that specify who qualifies to receive a transfer and/or the actions necessary to qualify for a transfer. The nature and substance of the eligibility criteria is such that they must be met before a transfer is provided. Stipulations are terms imposed by a transferring government regarding the use of transferred resources or the actions a recipient must perform in order to keep a transfer. Stipulations must be met by recipients who have already qualified to receive (by meeting eligibility criteria), or have received, a transfer. The nature and substance of stipulations is such that they are met after a transfer is provided. The standard provides further guidance as to how eligibility criteria and stipulations should be interpreted.

Symmetrical accounting may not result, in all cases, for the transferors and recipients of government transfers. Recognition requirements for transferring and recipient governments apply equally to operating transfers, capital transfers and transfers of tangible capital assets.

B Transferring government

Recognition

A transferring government must recognize government transfers as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Authorization

Authorization occurs when **either**:

- 1 There is evidence that **both** of the following have occurred:

- a the enabling authority to provide a transfer is in place (which is conveyed through approved legislation, regulations or by-laws of the transferring government); **and**
- b an exercise of authority under that approved legislation, regulations or by-laws has occurred (i.e., a decision has been made by the transferring government under the approved legislation, regulations or by-laws that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer).

or

- 2 There is evidence that **both** of the following have occurred:
 - a actions and communications of the transferring government clearly demonstrate that it has lost its discretion to avoid proceeding with a transfer (thus the government is demonstrably committed to approving the enabling legislation, regulations or by-laws for the transfer and proceeding with the transfer); **and**
 - b final approval in the stub period of the enabling legislation, regulations or by-laws confirms that the transferring government was demonstrably committed to approving and proceeding with the transfer.

Absence, at the financial statement date, of a definitive authority to pay may indicate that the required exercise of authority is not complete and, in fact, the transferring government may have retained its discretion to avoid proceeding with a transfer until the authority to pay is in place.

Capital transactions

Government transfers of tangible capital assets in a non-exchange transaction also fall under the scope of the standard and are recognized as an expense by the transferring government at the net book value of the tangible capital asset transferred.

C Recipient government

Recognition

A recipient governments' timing of recognition of government transfers as revenue differ depending on the existence of transfer terms.

- A transfer **without** eligibility criteria or stipulations is recognized as revenue when the transfer is authorized.
- A transfer **with** eligibility criteria but **without** stipulations is recognized as revenue when the transfer is authorized and all eligibility criteria have been met.
- A transfer **with or without** eligibility criteria but **with** stipulations is recognized as revenue in the period it is authorized and any eligibility criteria have been met, except when the stipulations give rise to an obligation that meets the definition of a liability for the recipient government (in accordance with Section PS 3200 *Liabilities*), in which case, the amounts would be recognized as revenue as the transfer stipulations are met.

Authorization

Authorization is viewed from the perspective of the transferring government; when the government transfer is authorized as described in Authorization item 1 above; authorization exists for the recipient as well.

Illustrative example

A local government is notified that they are entitled to receive a \$200,000 cash transfer from a provincial government, established by finalized provincial legislation. The cash transfer has two stipulations attached to it. The funds:

- 1 can only be used for capital expenditures which are prescribed by the PSA Handbook; and
- 2 cannot be used to pay down debt related to capital assets.

Shortly after receiving notification, the local government purchased capital assets in the amount of \$50,000 and approved additional capital asset purchases for the remaining \$150,000 that are expected to be completed within the next six months.

The provincial government has authorized the transfer of the funds, as they have notified the local government of their entitlement due to the finalization of legislation. Although nothing has been received, the local government's entitlement gives rise to an accounts receivable in the amount of \$200,000. However, as the local government has only spent \$50,000 on capital expenditures (internal approval to purchase is not a legal commitment), they have not yet met the full stipulations required to recognize the full transfer as revenue. The local government would recognize \$50,000 as revenue and would recognize a liability for the remaining \$150,000. The liability would be recognized into revenue when the additional capital purchases are completed.

Capital transactions

Government transfers of tangible capital assets are accounted for in accordance with this standard. However, this standard does not prescribe how a recipient government values a contributed tangible asset. Footnote 8 in this standard states:

“TANGIBLE CAPITAL ASSETS, Section PS 3150, prescribes the value at which to recognize a contributed tangible capital asset.”

Liabilities

The determination as to whether a liability, as opposed to revenue, would arise for a recipient government is influenced by:

- The stipulations of the transfer alone; or
- The stipulations of the transfer taken together with the actions and communications of the recipient government before the financial statement date.

Liabilities that are recognized are reduced and an equivalent amount of revenue is recognized as the liability is settled.

For a capital transfer, revenue recognition may occur over the related asset's useful life or over a lesser period depending on the terms of the liability. Generally, in practice, it would be rare to have a capital transfer recognized as revenue over the life of the capital asset.

A capital transfer relating to non-depreciable assets such as land would only meet the definition of a liability until the asset is acquired. At the date of acquisition, the capital transfer would be recognized in revenue.

Illustrative example

Transfer of non-depreciable property

A provincial government has transferred a piece of land to a school board. There were no eligibility criteria attached to the transfer; however, the transfer stipulates that an elementary school must be built within three years of the transfer or the school board would be required to pay the provincial government an amount equal to the carrying value of the land at the date of transfer. The land has a carrying value of \$500,000 on the financial statements of the provincial government. An appraisal at the date of transfer placed a fair value of \$1,200,000 on the land.

At the date of transfer, the provincial government would derecognize the land and recognize an expense in the amount of \$500,000 (the carrying value of the land).

Although there is a stipulation attached to the transfer, the school board must recognize the transfer as revenue, in full, at the date of transfer.

At the date of transfer, the school board would recognize the land and recognize revenue using the guidance in Section PS 3150. Therefore, the value used by the school board to recognize the tangible capital asset and revenue is the fair value of \$1,200,000.

D Presentation and disclosure

Financial statements should disclose the major kinds of transfers recognized during the accounting period and information about the nature and terms of liabilities, if any, arising from government transfers received.

E Transitional provisions

This standard applies to fiscal periods beginning on or after April 1, 2012, with earlier adoption encouraged. This standard may be applied retroactively or prospectively.

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