6.6 Reporting Accounting Changes

Policy Statement

It is the policy of the Province of Nova Scotia to record and report accounting changes in compliance with the PSAB (Public Sector Accounting Board) standards.

Definitions

CHANGE IN ACCOUNTING POLICY

A change in the specific principles or methods selected to be applied in the preparation of financial statements; these changes often result from the adoption of a PSAB recommendation, from a change in choice from among two or more appropriate principles (or methods used in their application), or from the desire to have a more appropriate presentation of events or transactions in the government's financial statements.

CHANGE IN ACCOUNTING ESTIMATE

A change that is made as part of the normal process of accounting: these changes result from the occurrence of new events, as more experience is acquired, or as additional information is obtained.

PRIOR PERIOD ERROR

An unintentional error that is sufficiently material to consider the financial statements of prior periods to no longer be considered fairly presented at that date; these errors may result from such things as a mistake in computation, a misrepresentation of information, or an oversight of information available at the time that the financial statements were prepared.

PROSPECTIVE APPLICATION

Applying the change to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change.

RETROACTIVE APPLICATION

Applying the change to events and transactions from the date of origin of such items; the financial statements for the prior period presented for comparative purposes are restated to reflect the new policy, except when the effect of the change is not reasonably determinable for individual prior periods; the balance of accumulated surplus/deficit is restated to reflect the cumulative effect of the change on periods prior to that date.

Policy Objectives

The objective of this policy is to define the appropriate recording and reporting of a change in an accounting policy, a change in accounting estimate, and a correction of an error relating to prior period financial statements.

Application

This policy applies to all departments and public service agencies. Entities within the Government Reporting Entity are asked to provide this information as part of their year end requirements and are included in the Province's financial statements.

Policy Directives

The appropriate recording of accounting changes depends on the type of change and the reason for the change.

CHANGE IN ACCOUNTING POLICY

When a change in accounting policy is made to conform to a new PSAB recommendation or to adopt a PSAB recommendation for the first time, the change may be applied retroactively or prospectively. The Province consistently strives to apply changes of this nature retroactively to provide consistent reporting for the users of its financial statements.

Sometimes there is a choice from among two or more appropriate principles or methods used in their application. When a change is made, or when a change is applied because it is believed that it would result in a more appropriate presentation of events or transactions in its financial statement, then the new accounting policy should be applied retroactively, unless the necessary financial data are not reasonably determinable. For example, the change from expensing tangible capital assets to capitalizing and amortizing their costs is a change in accounting policy.

For each change in an accounting policy in current period, the following information should be disclosed in notes to the financial statements:

- a description of the change;
- the effect of the change on the financial statements of the current period; and
- the reason for the change

When a change in accounting policy has been applied retroactively and the prior period has been restated, the fact that the financial statements of the prior period has been restated and the effect of the change on those prior periods should be disclosed in notes to the financial statements and in headings of affected columns of numbers. When a change in an accounting policy has not been applied retroactively, this fact should be disclosed as well.

CHANGE IN AN ACCOUNTING ESTIMATE

A change in accounting estimate arises because of new information or developments. It is sometimes difficult to distinguish between a change in accounting policy and a change in an accounting estimate. In cases where it is difficult to draw a clear distinction, it is usual for the change to be treated as a change in estimate rather than a change in accounting policy. It is appropriate to apply a change in accounting estimate prospectively, because it results from new information, more experience or the occurrence of new events. Revising the bad debt reserves or accrued liabilities are examples of changes in accounting estimates.

When a change in estimate occurs in the course of accounting for normal operating activities, disclosure is not usually necessary. However, when a change in an accounting estimate is rare or unusual and may affect the financial results of both current and future periods, financial statement note disclosure of the nature and effect on the current period may be desirable.

CORRECTION OF AN ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS

Rarely, an error occurs in the financial statements of a prior period that is material enough that the financial statements of the prior period is no longer considered to have been fairly presented. In this case, the amount of the correction of the error that impairs the fairness of those financial statements should be reported retroactively. Comparative information should be restated, unless it is impracticable to do so. To distinguish between an error and a change in estimate, it is important to remember that an estimate, made as part of the normal process of accounting, which is proved by subsequent events to be inaccurate is not considered to be an error. However, if an expense was recorded as an asset instead of an expense, that is an error. The correction to clear the asset accounts and expense the item would be recorded retroactively if the amount was material.

When there has been a correction of an error in prior period financial statements, the following information should be disclosed in the notes to the financial statements:

- a description of the error;
- the effect of the correction of the error on the financial statements of the current and prior periods; and
- the fact that the financial statements of prior periods that are presented are restated

Policy Guidelines

Judgement is required in the determination of the nature of the accounting change, resulting reporting requirements, and the level of disclosure required. Each circumstance will be assessed individually to determine the appropriate treatment with due consideration given to materiality.

Accountability

Departments are responsible for ensuring that any material prior period errors are identified to Government Accounting.

Entities provide information to Government Accounting, Department of Finance regarding these types of changes as part of their annual reporting requirement.

Government Accounting provides appropriate reporting and disclosure in the Province's Public Accounts.

Monitoring

Government Accounting will monitor the policy's performance and effectiveness.

References

PS 2120 Accounting Changes

Enquiries

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