6.6 Reporting Accounting Changes

Policy Statement

It is the policy of the Province of Nova Scotia (Province) to record and report accounting changes in accordance with Canadian public sector accounting standards (PSAS).

Definitions

CHANGE IN ACCOUNTING POLICY

A change made in the specific principles or methods applied in the preparation of financial statements. These changes often result from the adoption of a PSAS recommendation, from a change in choice 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 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 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

The effect of the change is applied in the current period to events and transactions occurring after the date of the change and to any outstanding related balances existing at the date of the change. No cumulative catch-up adjustment is made to such balances.

RETROACTIVE APPLICATION

The effect of a change on events and transactions is accounted for in prior periods 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. In the latter case, 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 of the Province's departments, public service units, agencies, boards, and commissions contained in the General Revenue Fund (GRF) (hereinafter referred to as "departments").

Organizations outside of the GRF but within the Government Reporting Entity[1] (GRE) are encouraged to adopt a policy that allows for the accurate and consistent reporting of accounting changes. This policy should be in compliance with the entity's generally accepted accounting framework. It is recognized that many entities may already have an appropriate policy in place. These organizations are responsible for reporting their accounting changes to the Government Accounting Division as part of the year-end consolidation reporting requirements.

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 an accounting policy is made to conform to a new PSAS recommendation or to adopt a PSAS recommendation for the first time, the change should be accounted for in accordance with any related transitional provisions. In the absence of specific transitional provisions, 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, the new accounting policy should be applied retroactively, unless the necessary financial data are not reasonably determinable. For example, a change from the first-in-first-out to weighted average cost method of inventory costing is a change in an accounting policy.

1 For definition, see Budgeting and Financial Management Manual 200, Chapter 4.1 Government Reporting Entity.

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

- a description of the change
- the effect of the change on the financial statements of the current period
- 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 have been restated and the effect of the change on those prior periods should be disclosed in notes to the financial statements. When a change in an accounting policy has not been applied retroactively, this fact, and the reasons therefor, should be disclosed.

CHANGE IN ACCOUNTING ESTIMATE

The effect of a change in an accounting estimate should be accounted for prospectively in the current period and any applicable future periods. A change in accounting estimate should not be given retroactive effect because it arises 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.

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.

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

Prior period accounting errors should be accounted for 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 account and expense the item would be recorded retroactively.

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
- the fact that the financial statements of prior periods that are presented are restated.

Note: an error identified by an auditor in one period for which the decision is made not to correct in that period, but instead is corrected in a subsequent period would not be accounted for retroactively. Correction of errors identified by an auditor in a subsequent period should be accounted for prospectively.

Policy Guidelines

Judgment 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

Departmental Financial Advisory Services Units are responsible for ensuring that any accounting changes are identified and provided to the Government Accounting Division by year-end.

The Government Accounting Division is responsible for compiling all accounting changes for the GRF and GRE and ensuring they are appropriately reported and disclosed in the Province's Public Accounts.

Monitoring

Departmental Financial Advisory Services Units are responsible for monitoring the implementation and compliance of this policy. The Government Accounting Division is responsible for monitoring the application, performance, and effectiveness of this policy.

References

PS 2120 Accounting Changes — Public Sector Accounting Handbook

Enquiries

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