

16.1 Liabilities – General

Policy Statement

It is the policy of the Province of Nova Scotia to record and/or disclose liabilities on an accrual basis in accordance with generally accepted accounting principles for the public sector.

Definitions

LIABILITIES

Present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

SACRIFICE OF ECONOMIC BENEFITS

Embodies a duty or responsibility to others to a future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand.

CONSTRUCTIVE OBLIGATION

An obligation that can be inferred from the facts in a particular situation, whereby the action or inaction by the government in a particular circumstance(s) has created the expectation of a government obligation.

EQUITABLE OBLIGATION

An obligation that is based on ethical or moral considerations.

Policy Objectives

The objective of this policy is to provide guidance to facilitate government-wide general liability recognition that is applied on a reasonable and consistent basis.

Application

This policy applies to all departments and public service agencies contained within the General Revenue Fund.

Policy Directives

Liabilities arise from many types of obligations, including items such as the following:

- agreements or contracts
- another government's legislation
- a government's own legislation
- constructive obligations, or
- equitable obligations.

Agreements, contracts, and government legislation are liabilities supported by legally binding agreements and legislation. The terms of the liability are often clearly documented to avoid ambiguity.

Constructive obligations are not based on legally binding agreements, but due to events that have transpired surrounding a particular circumstance(s), the parties *have effectively* entered into an agreement(s) that creates an obligation(s) between the parties.

Example

A Minister publicly commits or agrees on behalf of a government department to provide funding to support the cause of an organization within its community. A public expectation has been created and as a result, the government is effectively bound to fulfill its commitment as communicated.

Equitable obligations arise due to ethical or moral considerations. It is often difficult to record an equitable obligation given its ambiguous nature and the difficulty involved with obtaining a reasonable measurement.

Sometimes a liability is of a contingent nature, where there is a degree of uncertainty as to whether a present obligation exists at the financial statement date. The obligation will not be confirmed until the occurrence of a future event. Contingent liabilities are specifically addressed in a separate section of this management manual chapter.

RECOGNITION

Liabilities are recorded during the period in which (1) there is an appropriate basis of measurement, and (2) a reasonable estimate can be made of the amount involved.

At times, an exact amount of expense is not known, whereby a reasonable estimate is accrued to ensure the expense is captured during the correct period when the obligation arose (i.e., when the goods/services were received, etc.) A reasonable amount may be calculated or estimated using methods such as past/similar experience or by using quoted prices in a situation where goods or services have been received.

Any revisions to accruals that are known before the financial statements are completed, are adjusted in those financial statements.

DISCLOSURE

In the event a department is aware of a significant obligation but is unable to record it due to the inability to find an appropriate basis of measurement or because a reasonable estimate is not attainable, that department will provide information to Government Accounting to be disclosed in the province's notes to its financial statements the nature of the liability, along with a reason why an amount cannot be recorded.

Accountability

Departments are individually responsible for ensuring that liabilities are appropriately and completely reflected in their accounts and disclosed information.

Government Accounting will rely on information provided by the departments to include appropriate recognition and disclosure in the province's financial statements.

Monitoring

Government Accounting will provide necessary guidance to each department in applying this policy. Further, Government Accounting will monitor compliance with, and the effectiveness of, the policy across the departments.

References

PS 1000 Financial Statement Concepts

PS 3200 Liabilities

PS 3300 Contingent Liabilities

Enquiries

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Approval date: **July 31, 2008**
Approved by: **Executive Council**

Effective date: **August 21, 2008**
Administrative update: **October 7, 2010**
