2000 Liabilities

A. Overview

Liabilities are 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. Liabilities have three essential characteristics:

- they embody a duty or responsibility to others, leaving the government little or no discretion to avoid settlement of the obligation;
- the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods and services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
- the transactions or events obligating the government have already occurred.

Reporting on a government's liabilities at the financial statement date is necessary to ensure a complete reporting of transactions and events, and to understand and assess demands on resources.

B. Accountability

Ministries are responsible for maintaining source documents, working papers and files supporting liabilities for internal and external audit and review.

Ministries are required to:

- establish and maintain accounting systems to collect, record and report information on their liabilities;
- establish and maintain adequate internal control systems to ensure the accuracy and reliability of liability information and reports;
- monitor liability balances and record transactions promptly and accurately;
- ensure reconciliations are completed on a timely and accurate basis; and
- ensure liabilities that cannot be recorded are appropriately disclosed.

C. Procedures

Liabilities arise from many types of obligations, resulting in the government being bound or committed to a particular course of action. Liabilities can arise from:

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

C. Procedures *(continued)*

Constructive obligations arise from actions and communications by a government that have resulted in a valid expectation among others that a government has no realistic alternative but to settle the obligation.

Equitable obligations arise due to ethical or moral considerations. Recording an equitable obligation is often difficult given its ambiguous nature and the challenge with obtaining a reasonable estimate.

For constructive and equitable obligations, determining when a government has little or no discretion to avoid the obligation is a matter of professional judgement. Discretion is the ability to make individual choices, judgments or decisions; if discretion is lost, a government has no realistic alternative but to settle the obligation and therefore has a liability. The obligation does not depend on future actions of the government or other transactions or events. The government has given up its freedom to make further choices, judgments and decisions related to the obligation.

Liabilities are recognized in the financial statements when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved. Where there is not an appropriate basis of measurement or a reasonable estimate of the amount cannot be made, the nature of the liability may need to be disclosed in the notes to the Summary Financial Statements (SFS) together with the reasons why a reasonable estimate of the amount cannot be made.

Contingent liabilities are disclosed when a reasonable estimate of the liability cannot be made or the occurrence of the confirming future event is not determinable. Contingent liabilities result when there is a degree of uncertainty as to whether a present obligation to sacrifice future economic benefits exists at the financial statement date. The obligation is not confirmed until the occurrence of a future event. Refer to Section 2200 Contingent Liabilities for further guidance.

C1. Throughout the Year

Monitor liability balances and record transactions promptly and accurately. Complete reconciliations on a timely and accurate basis. Ensure that liability balances are appropriately cleared as the liabilities are settled throughout the year.

Refer to specific liability sections of the Accounting Manual for further guidance and procedures.

C. Procedures *(continued)*

C2. Quarter end

Given that ministries are required to focus on revenues and expenses at quarter end, no specific procedures, other than those outlined in other specific liability or expense sections of the Accounting Manual, are required at quarter end. An example of a required quarterly liability adjustment would be any adjustments to Obligations Under Long-Term Financing Arrangements arising from Public Private Partnerships.

C3. Year end

Review liability balances for accuracy and completeness. Adjustments may be required for any liabilities that have been settled but balances remain in MIDAS. An example would be where a liability was recorded based on an estimate and the actual amount of the liability is less than the estimate.

Record accruals for any liabilities/expenditures not yet recorded when there is an appropriate basis of measurement and a reasonable estimate can be made. A reasonable estimate may be calculated or estimated using methods such as past/similar experience or by using quoted prices in a situation where goods or services are provided.

In the event there is a significant liability for which there is no appropriate basis of measurement and/or a reasonable estimate cannot be made, provide information to the Provincial Comptroller's Office for potential disclosure in the notes to the SFS together with the reasons why a reasonable estimate of the amount cannot be made.

Refer to specific liability sections of the Accounting Manual for further guidance and procedures.

D. Definitions

Liabilities are 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.

Discretion is the ability to make individual choices, judgments or decisions.

Constructive Obligation is an obligation that can be inferred from the facts in a particular situation, whereby the action or inaction by the government has created the expectation of a government obligation.

Equitable Obligation is an obligation that is based on ethical and moral considerations.

E. References

2200 Contingent Liabilities
2120 Holdbacks Payable

Public Sector Accounting Handbook
PS 1000 Financial Statement Concepts
PS 1201 Financial Statement Presentation
PS 3200 Liabilities

Other Links

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Glossary