14.3 Non-Monetary Related Party Transactions

Policy Statement

It is the policy of the Province of Nova Scotia to account for non-monetary related party transactions in accordance with accounting recommendations of the Public Sector Accounting Board.

Definitions

CARRYING AMOUNT

Carrying amount is the book value of an asset or liability after adjustment, if any, for amortization or impairment in value.

EXCHANGE AMOUNT

Exchange amount is the amount of consideration paid or received as established and agreed to by related parties. The exchange amount reflects the actual amount of the consideration given for the item transferred.

FAIR VALUE

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. It is essentially market price.

MONETARY ASSETS AND LIABILITIES

Monetary assets and liabilities are money or claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangement. Examples include cash, accounts and notes receivable in cash and accounts and notes payable in cash.

NON-MONETARY ASSETS AND LIABILITIES

Non-monetary assets and liabilities are assets and liabilities that are not monetary. Inventories, investments in common stock, tangible capital assets and liabilities for rent collected in advance are examples of non-monetary assets and liabilities.

Non-monetary transactions are either:

(i) Non-monetary Exchanges
When non-monetary assets, liabilities or services are exchanged for other non-monetary assets, liabilities or services with little or no monetary consideration involved; or

(ii) Non-monetary Non-reciprocal Transfers
When non-monetary assets, liabilities or services are transferred without any consideration given in return. Donations of tangible capital assets are an example of non-monetary non-reciprocal transfers.

RELATED PARTIES

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. The province and the entities within the Government Reporting Entity (GRE) are related parties as the province has the ability to exercise control over the other entities within the GRE. As well, the entities within the GRE are related parties (e.g., a district health authority and a regional school board) as they are subject to common control of the province.

RELATED PARTY TRANSACTION

A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction.

Policy Objectives

The objective of this policy is to ensure non-monetary related party transactions are accounted for appropriately and accurately.

Application

This policy applies to the province's departments, agencies, boards, and commissions of the General Revenue Fund.

Policy Directives

Non-monetary related party transactions should be accounted for in accordance with Section 3840 Related Party Transactions, CICA Handbook. However, a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of

restructuring or liquidation should be accounted for in accordance with CICA 3831, Non-Monetary Transactions.

MEASUREMENT

Generally, a non-monetary related party transaction is measured at the carrying amount (i.e., book value).

However, a non-monetary related party transaction is measured at the exchange amount in the following two situations:

1. if the transaction has commercial substance and is in the normal course of operations (unless the transaction is in the normal course of operations and the transaction will facilitate sales to other customers, other than the parties to the exchange); or
2. if the transaction has commercial substance and is <u>not</u> in the normal course of operations, and:
   i) the change in the ownership interests in the item transferred is substantive; and
   ii) the exchange amount is supported by independent evidence.

A change in the ownership interests in an item transferred is presumed to be substantive when a transaction results in unrelated parties having acquired or given up at least 20 percent of the ownership interests in the item.

COMMERCIAL SUBSTANCE

A transaction is deemed to have commercial substance if it causes an identifiable, measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity. A non-monetary transaction has commercial substance when the entity's future cash flows are expected to change significantly as a result of the transaction.

The entity's future cash flows are expected to change significantly as a result of the transaction when either of the following conditions is met:

- the risk, timing or amount of the future cash flows of the asset received differs significantly from that of the asset given up (e.g., a change in the type of asset owned may represent a change in the risk of the cash flows from the asset); or
- the entity-specific value of the asset received differs from that of the asset given up, and the difference is significant relative to the fair value of the assets exchanged (e.g., realization of cost savings; realization of additional revenues).

The term "entity-specific value" is a measure of the value of an asset in the context of the entity owning the asset. It includes all of the cash flow effects of a transaction on the entire entity. The entity uses its expectations about its use of the asset rather than the use assumed by marketplace participants.

NORMAL COURSE OF OPERATIONS

When determining whether the operations are normal, the following matters should be taken into account: type and scope of operations, characteristics of the industry, operating policies of the enterprise, nature of products and services, and the environment in which the enterprise operates.

Examples of transactions in the normal course of operations are: the sale or purchase of an inventory item, the provision or receipt of a recurring service including management and administrative services commonly shared by related parties, a lending activity undertaken by a financial institution, a sale or purchase of real estate by an enterprise that is in the business of selling real estate as part of its ongoing activities, and recurring investing activities by an investment company.

A related party transaction is presumed <u>not</u> to be in the normal course of operations when it is not of a type that is usually, frequently or regularly undertaken by the enterprise for the purpose of generating revenue. The sale or purchase of capital assets is an example of transactions not in the normal course of operations. A transaction involving the sale or purchase of assets that were not acquired for resale is also not in the normal course of operations.

DONATIONS – DEPARTMENTAL GRANT EXPENSE

In order to reflect the decrease in resources, donations of tangible capital assets by the province are recorded by departments of the General Revenue Fund as departmental grant expense (i.e., a donation in lieu of a grant). The amount of departmental grant expense to be recorded is measured as per the above Measurement section.

WRITE-DOWNS – DEPARTMENTAL OPERATING EXPENSE

14.1 Tangible Capital Assets Policy states

> "The net book value of a tangible capital asset is to be written down when conditions indicate the tangible capital asset no longer contributes to the government's ability to provide services or the future economic benefits are less than the net book value. Write-downs are not to be reversed. The amount of the write-down represents a charge against the department's budget appropriation."

Policy Guidelines

Each non-monetary transaction should be evaluated on an independent basis and the determination of the appropriate accounting treatment for each transaction requires the use of professional judgement.

Accountability

Departments are responsible for identifying and assessing non-monetary related party transactions. In addition, departments are responsible to ensure the appropriate accounting treatment for non-monetary related party transactions.

Government Accounting is responsible for providing guidance and advice relating to the appropriate accounting treatment for non-monetary related party transactions.

Monitoring

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

References

CICA Handbook, Section 3831 Non-Monetary Transactions
CICA Handbook, Section 3840 Related Party Transactions
14.1 Tangible Capital Assets Policy

Appendices

Appendix 14-F Non-monetary Related Party Transactions Decision Tree
Appendix 14-G Examples

Enquiries

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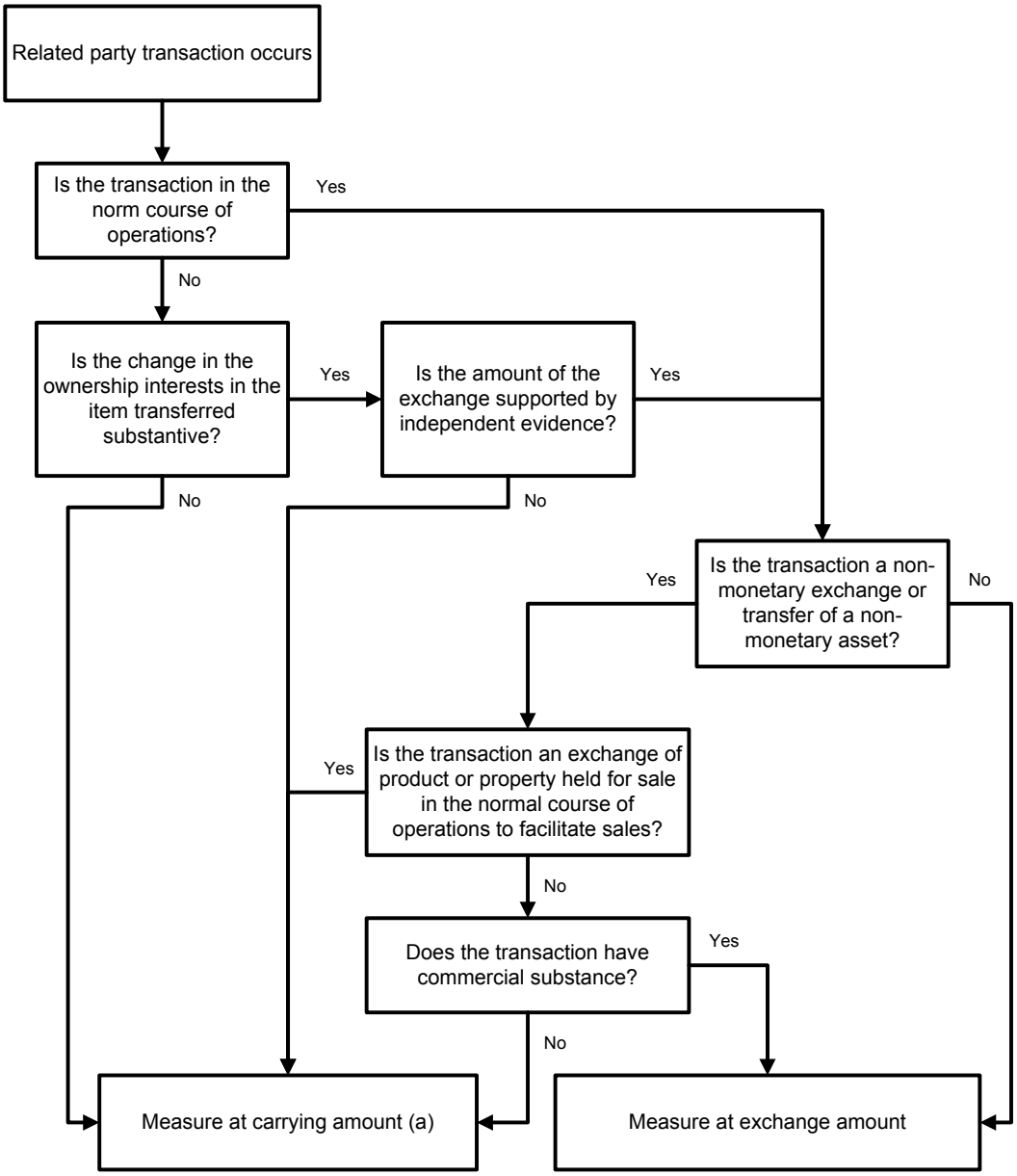
Appendix 14-F

Decision tree

The following decision tree is provided for illustrative purposes.



(a) In rare circumstances, when the carrying amount of the item received is not available, a reasonable estimate of the carrying amount, based on the transferor's original cost, may be used to measure the exchange.

Appendix 14-G

Examples

The following examples demonstrate the appropriate accounting treatment for non-monetary related party transactions in a variety of circumstances.

Example 1

EXCHANGE OF TCA

A department of the General Revenue Fund exchanges a vehicle with a carrying value of $20,000 with an entity within the GRE for a piece of major equipment with a carrying value of $25,000. The department determines the transaction is not within the normal course of operations. In addition, the change in the ownership interests in the property transferred is not substantive. As a result, the transaction should be measured at the carrying amount. The department would record the exchange as follows:

Debit:	TCA-Major Equipment	$25,000
Credit:	TCA-Motor Vehicles	($20,000)
Credit:	Gain on Disposal of Assets	($5,000)

The other related party entity would record the transfer as follows:

Debit:	TCA-Motor Vehicles	$20,000
Debit:	Loss on Disposal of Assets	$5,000
Credit:	TCA-Major Equipment	($25,000)

In preparation of the consolidated financial statements, the following elimination entry would be processed:

Debit:	Gain on Disposal of Assets	$5,000
Credit:	Loss on Disposal of Assets	($5,000)

Example 2

DONATION OF TCA - DEPARTMENTAL GRANT EXPENSE

A department of the General Revenue Fund donates property including land and buildings to an entity within the GRE for a nominal value of $1. The carrying amount of the land is $351,000 and the carrying amount of the buildings is $1,400,000. The department determines the transaction is not within the normal course of operations. In addition, the change in the ownership interests in the property transferred is not substantive. As a result, the transaction should be measured at the carrying amount. The department would record the transfer as follows:

Debit:	Cash	$1
Debit:	Departmental Grant Expense	$1,750,999
Credit:	TCA-Land	($351,000)
Credit:	TCA-Buildings	($1,400,000)

The other related party entity would record the transfer as follows:

Debit:	TCA-Land	$351,000
Debit:	TCA-Buildings	$1,400,000
Credit:	Grant Revenue	($1,750,999)
Credit:	Cash	
($1)		

In preparation of the consolidated financial statements, the following elimination entry would be processed:

Debit:	Grant Revenue	$1,750,999
Credit:	Departmental Grant Expense	($1,750,999)