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Accounting for post balance sheet events

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

17

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The provisions of this statement of standard accounting practice should be read in conjunction with the Explanatory Foreword to Accounting Standards *and need not be applied to immaterial items. The provisions apply equally to financial statements prepared under the historical cost convention and to financial statements prepared under the current cost convention.*

Part 1 – Explanatory note

1 Events arising after the balance sheet date need to be reflected in financial statements if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

2 To prevent financial statements from being misleading, disclosure needs to be made by way of notes of other material events arising after the balance sheet date which provide evidence of conditions not existing at the balance sheet date. Disclosure is required where this information is necessary for a proper understanding of the financial position.

3 A post balance sheet event for the purpose of this standard is an event which occurs between the balance sheet date and the date on which the financial statements are approved by the board of directors. It is not intended that the preliminary consideration of a matter which may lead to a decision by the board of directors in the future should fall within the scope of this standard.

4 Events which occur after the date on which the financial statements are approved by the board of directors do not come within the scope of this standard. If such events are material the directors should consider publishing the relevant information so that users of financial statements are not misled.

5 The process involved in the approval of financial statements by the directors will vary depending on the management structure and procedures followed in preparing and finalising financial statements. However, the date of approval will normally be the date of the board meeting at which the financial statements are formally approved, or in respect of unincorporated enterprises the corresponding date. In respect of group accounts, the date of approval is the date the group accounts are formally approved by the board of directors of the holding company.

Classification of post balance sheet events

6 Events occurring after the balance sheet date may be classified into two categories: 'adjusting events' and 'non-adjusting events'.

7 Adjusting events are events which provide additional evidence relating to conditions existing at the balance sheet date. They require changes in amounts to be included in financial statements. Examples of adjusting events are given in the appendix.

Some events occurring after the balance sheet date, such as a deterioration in the operating results and in the financial position, may indicate a need to consider whether it is appropriate to use the going concern concept in the preparation of financial statements. Consequently these may fall to be treated as adjusting events. 8

Non-adjusting events are events which arise after the balance sheet date and concern conditions which did not exist at that time. Consequently they do not result in changes in amounts in financial statements. They may, however, be of such materiality that their disclosure is required by way of notes to ensure that financial statements are not misleading. Examples of non-adjusting events which may require disclosure are given in the appendix. 9

Disclosure would be required of the reversal or maturity after the year end of transactions entered into before the year end, the substance of which was primarily to alter the appearance of the company's balance sheet. Such alterations include those commonly known as 'window dressing'. 10

There are certain post balance sheet events which, because of statutory requirements or customary accounting practice, are reflected in financial statements and so fall to be treated as adjusting events. These include proposed dividends, amounts appropriated to reserves, the effects of changes in taxation and dividends receivable from subsidiary and associated companies. 11

Disclosure in financial statements

Separate disclosure of adjusting events is not normally required as they do no more than provide additional evidence in support of items in financial statements. 12

In determining which non-adjusting events are of sufficient materiality to require disclosure, regard should be had to all matters which are necessary to enable users of financial statements to assess the financial position. 13

Part 2 – Definition of terms

Financial statements are balance sheets, profit and loss accounts, statements of source and application of funds, notes and other statements, which collectively are intended to give a true and fair view of financial position and profit or loss. 14

Company includes any enterprise which comes within the scope of statements of standard accounting practice. 15

Directors include the corresponding officers of organisations which do not have directors. 16

The date on which the financial statements are approved by the board of directors is the date the board of directors formally approves a set of documents as the financial statements. In respect of unincorporated enterprises, the date of approval is the corresponding date. In respect of group accounts, the date of approval is the date when the group accounts are formally approved by the board of directors of the holding company. 17

18 *Post balance sheet events* are those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the financial statements are approved by the board of directors.

19 *Adjusting events* are post balance sheet events which provide additional evidence of conditions existing at the balance sheet date. They include events which because of statutory or conventional requirements are reflected in financial statements.

20 *Non-adjusting events* are post balance sheet events which concern conditions which did not exist at the balance sheet date.

Part 3 – Standard accounting practice

21 Financial statements should be prepared on the basis of conditions existing at the balance sheet date.

22 A material post balance sheet event requires changes in the amounts to be included in financial statements where:

(a) it is an adjusting event; or

(b) it indicates that application of the going concern concept to the whole or a material part of the company is not appropriate.

23 A material post balance sheet event should be disclosed where:

(a) it is a non-adjusting event of such materiality that its non-disclosure would affect the ability of the users of financial statements to reach a proper understanding of the financial position; or

(b) it is the reversal or maturity after the year end of a transaction entered into before the year end, the substance of which was primarily to alter the appearance of the company's balance sheet.

24 In respect of each post balance sheet event which is required to be disclosed under paragraph 23 above, the following information should be stated by way of notes in financial statements:

(a) the nature of the event; and

(b) an estimate of the financial effect, or a statement that it is not practicable to make such an estimate.

25 The estimate of the financial effect should be disclosed before taking account of taxation, and the taxation implications should be explained where necessary for a proper understanding of the financial position.

26 The date on which the financial statements are approved by the board of directors should be disclosed in the financial statements.

Date from which effective

The accounting practices set out in this statement should be adopted as soon as possible and regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1st September 1980. 27

Part 4 – Compliance with International Accounting Standard No. 10 'Contingencies and events occurring after the balance sheet date'

The requirements of International Accounting Standard No. 10 'Contingencies and events occurring after the balance sheet date' concerning post balance sheet events accord very closely with the content of the United Kingdom and Irish Accounting Standard No. 17 'Accounting for post balance sheet events' and accordingly compliance with SSAP17 will ensure compliance with IAS10 in all material respects so far as post balance sheet events are concerned. 28

Appendix

This appendix is for general guidance and does not form part of the statement of standard accounting practice. The examples are merely illustrative and the lists are not exhaustive.

The examples listed distinguish between those normally classified as adjusting events and as non-adjusting events. However, in exceptional circumstances, to accord with the prudence concept, an adverse event which would normally be classified as non-adjusting may need to be reclassified as adjusting. In such circumstances, full disclosure of the adjustment would be required.

Adjusting events

The following are examples of post balance sheet events which normally should be classified as adjusting events:

(a) *Fixed assets*. The subsequent determination of the purchase price or of the proceeds of sale of assets purchased or sold before the year end.

(b) *Property*. A valuation which provides evidence of a permanent diminution in value.

(c) *Investments*. The receipt of a copy of the financial statements or other information in respect of an unlisted company which provides evidence of a permanent diminution in the value of a long-term investment.

(d) *Stocks and work in progress.*

   (i) The receipt of proceeds of sales after the balance sheet date or other evidence concerning the net realisable value of stocks.

   (ii) The receipt of evidence that the previous estimate of accrued profit on a long-term contract was materially inaccurate.

(e) *Debtors*. The renegotiation of amounts owing by debtors, or the insolvency of a debtor.

(f) *Dividends receivable*. The declaration of dividends by subsidiaries and associated companies relating to periods prior to the balance sheet date of the holding company.

(g) *Taxation*. The receipt of information regarding rates of taxation.

(h) *Claims*. Amounts received or receivable in respect of insurance claims which were in the course of negotiation at the balance sheet date.

(i) *Discoveries*. The discovery of errors or frauds which show that the financial statements were incorrect.

Non-adjusting events

The following are examples of post balance sheet events which normally should be classified as non-adjusting events:

(a) *Mergers* and acquisitions.

(b) *Reconstructions* and proposed reconstructions.

(c) *Issues* of shares and debentures.

(d) *Purchases and sales of fixed assets* and investments.

(e) *Losses of fixed assets* or stocks as a result of a catastrophe such as fire or flood.

(f) *Opening new trading activities* or extending existing trading activities.

(g) *Closing a significant part of the trading activities* if this was not anticipated at the year end.

(h) *Decline in the value* of property and investments held as fixed assets, if it can be demonstrated that the decline occurred after the year end.

(i) *Charges in rates of foreign exchange*.

(j) *Government action*, such as nationalisation.

(k) *Strikes* and other labour disputes.

(l) *Augmentation of pension benefits*.