

SSAP 9
STATEMENT OF STANDARD ACCOUNTING PRACTICE 9
EVENTS AFTER THE BALANCE SHEET DATE

(Issued March 1983; Revised March 1984 and January 2001)

*The standards, which have been set in **bold italic type**, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice, Interpretations and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Objective

The objective of this Statement is to prescribe:

- a. when an enterprise should adjust its financial statements for events after the balance sheet date; and
- b. the disclosures that an enterprise should give about the date when the financial statements were authorised for issue and about events after the balance sheet date.

This Statement also requires that an enterprise should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate.

Scope

1. ***This Statement should be applied in the accounting for, and disclosure of, events after the balance sheet date.***

Definitions

2. ***The following terms are used in this Statement with the meanings specified:***

An equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a. ***those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and***
- b. ***those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).***

3. The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.
4. In some cases, an enterprise is required to submit its financial statements to its shareholders for approval after the financial statements have already been issued. In such cases, the financial statements are authorised for issue on the date of original issuance, not on the date when shareholders approve the financial statements.

Example

The management of an enterprise completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorises them for issue. The enterprise announces its profit and selected other financial information on 19 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The annual meeting of shareholders approves the financial statements on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of Board authorisation for issue).

5. In some cases, the management of an enterprise is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board.

Example

On 18 March 20X2, the management of an enterprise authorises financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The annual meeting of shareholders receives the financial statements on 15 May 20X2 and the financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of management authorisation for issue to the supervisory board).

6. Events after the balance sheet date include all events up to the date when the financial statements are authorised for issue, even if those events occur after the publication of a profit announcement or of other selected financial information.

Recognition and measurement

Adjusting events after the balance sheet date

7. *An enterprise should adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date.*

8. The following are examples of adjusting events after the balance sheet date that require an enterprise to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
- a. the resolution after the balance sheet date of a court case which, because it confirms that an enterprise already had a present obligation at the balance sheet date, requires the enterprise to adjust a provision already recognised, or to recognise a provision instead of merely disclosing a contingent liability;
 - b. the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
 - i. the bankruptcy of a customer which occurs after the balance sheet date usually confirms that a loss already existed at the balance sheet date on a trade receivable account and that the enterprise needs to adjust the carrying amount of the trade receivable account; and
 - ii. the sale of inventories after the balance sheet date may give evidence about their net realisable value at the balance sheet date;
 - c. the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date;
 - d. the determination after the balance sheet date of the amount of profit sharing or bonus payments, if the enterprise had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date; and
 - e. the discovery of fraud or errors that show that the financial statements were incorrect.

Non-adjusting events after the balance sheet date

9. *An enterprise should not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date.*
10. An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. The fall in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that have arisen in the following period. Therefore, an enterprise does not adjust the amounts recognised in its financial statements for the investments. Similarly, the enterprise does not update the amounts disclosed for the investments as at the balance sheet date, although it may need to give additional disclosure under paragraph 21.

Dividends

11. *If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date.*
12. SSAP 1 "Presentation of financial statements" requires an enterprise to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue. SSAP 1 permits an enterprise to make this disclosure either:
- a. on the face of the balance sheet as a separate component of equity; or

- b. in the notes to the financial statements.¹

Going concern

13. *An enterprise should not prepare its financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so.*
14. Deterioration in operating results and financial position after the balance sheet date may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Statement requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.
15. SSAP 1 "Presentation of financial statements" requires certain disclosures if:
- the financial statements are not prepared on a going concern basis; or
 - management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the enterprise's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the balance sheet date.

Disclosure

Date of authorisation for issue

16. *An enterprise should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact.²*
17. It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date.

Updating disclosure about conditions at the balance sheet date

18. *If an enterprise receives information after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should update disclosures that relate to these conditions, in the light of the new information.*
19. In some cases, an enterprise needs to update the disclosures in its financial statements to reflect information received after the balance sheet date, even when the information does not affect the amounts that the enterprise recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the balance sheet date about a contingent liability that existed at the balance sheet date. In addition to considering whether it should now recognise a provision under SSAP 28 "Provisions, contingent liabilities and contingent assets", an enterprise updates its disclosures about the contingent liability in the light of that evidence.

¹ A Hong Kong incorporated company is required to comply with legal requirement as stated in paragraph 24.

² This is not normally applicable to Hong Kong incorporated companies.

Non-adjusting events after the balance sheet date

20. *Where non-adjusting events after the balance sheet date are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an enterprise should disclose the following information for each significant category of non-adjusting event after the balance sheet date:*
- a. *the nature of the event; and*
 - b. *an estimate of its financial effect, or a statement that such an estimate cannot be made.*
21. The following are examples of non-adjusting events after the balance sheet date that may be of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions:
- a. a major business combination after the balance sheet date (SSAP 30 "Business combinations" requires specific disclosures in such cases) or disposing of a major subsidiary;
 - b. announcing a plan to discontinue an operation, disposing of assets or settling liabilities attributable to a discontinuing operation or entering into binding agreements to sell such assets or settle such liabilities³;
 - c. major purchases and disposals of assets, or expropriation of major assets by government;
 - d. the destruction of a major production plant by a fire after the balance sheet date;
 - e. announcing, or commencing the implementation of, a major restructuring (see SSAP 28 "Provisions, contingent liabilities and contingent assets");
 - f. major ordinary share transactions and potential ordinary share transactions after the balance sheet date (SSAP 5 "Earnings per share" encourages an enterprise to disclose a description of such transactions, other than capitalisation issues and share splits);
 - g. abnormally large changes after the balance sheet date in asset prices or foreign exchange rates;
 - h. changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities⁴;
 - i. entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
 - j. commencing major litigation arising solely out of events that occurred after the balance sheet date.

³ This text is taken from IAS 10 "Events after the balance sheet date" which contains a cross-reference to IAS 35 "Discontinuing operations". The Society intends to develop a SSAP on "Discontinuing operations" that is to be based on the equivalent IAS of the same title. In the meantime, enterprises may consider making reference to IAS 35 for guidance on the accounting for and disclosure of discontinuing operations where necessary, in addition to the guidance and requirements in SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" in respect of discontinued and discontinuing operations.

⁴ This text is taken from IAS 10 "Events after the balance sheet date" which contains a cross-reference to IAS 12 "Income taxes". The Society intends to develop a SSAP on "Income taxes" that is to be based on the equivalent IAS of the same title.

Effective date

22. *The accounting practices set out in this Statement should be regarded as standard in respect of financial statements relating to periods beginning on or after 1 January 2001. Earlier adoption is encouraged but not required. If an enterprise applies this Statement for annual financial statements covering periods beginning before 1 January 2001, the enterprise should:*
- a. *disclose that fact; and*
 - b. *adopt SSAP 28 "Provisions, contingent liabilities and contingent assets" and SSAP 30 "Business combinations" at the same time.*
23. This Statement supersedes SSAP 9 "Accounting for post balance sheet events".

Notes on legal requirements in Hong Kong

24. Paragraph 9(1)(e) of the Tenth Schedule to the Companies Ordinance requires the disclosure of the aggregate amount which is recommended for distribution by way of dividend in the balance sheet.
25. Paragraph 13(1)(j) of the Tenth Schedule to the Companies Ordinance requires the disclosure of the aggregate amount of the dividend paid and proposed in the profit and loss account.

Compliance with International Accounting Standards

26. Compliance with this Statement ensures compliance in all material respects with International Accounting Standard 10 "Events after the balance sheet date".

Appendix A

Example - Disclosure of proposed dividend

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards and the Hong Kong Companies Ordinance to assist in clarifying their meaning.

Extract from the income statement

| | 20X2 | 20X1 |
|---|--------------------------------|--------------------------------|
| | \$ | \$ |
| Net profit for the period | X <u> </u> | X <u> </u> |
| Dividends: | | |
| Interim dividend paid of \$0.15 (20X1:\$0.10) per ordinary share | 7,500 | 5,000 |
| Proposed final dividend of \$0.25 (20X1:\$0.20) per ordinary share | <u>12,500</u> | <u>10,000</u> |
| | <u>20,000</u> <u> </u> | <u>15,000</u> <u> </u> |

Extract from the balance sheet

| | 20X2 | 20X1 |
|-----------------------------|--------------------------------|--------------------------------|
| | \$ | \$ |
| CAPITAL AND RESERVES | | |
| Issued capital | X | X |
| Reserves | X | X |
| Accumulated profits | X | X |
| Proposed final dividend | <u>12,500</u> | <u>10,000</u> |
| SHAREHOLDERS' EQUITY | <u> </u> <u> </u> | <u> </u> <u> </u> |

Appendix B

Changes from International Accounting Standard 10 "Events after the balance sheet date"

The purpose of this appendix is to summarise the major changes made to the equivalent International Accounting Standard when adopting it in Hong Kong and the reasons for such changes. It does not form part of the standards and should be read in the context of the full text of the Statement.

| Changes | Reasons for the Changes |
|---|---|
| <p>(i) <u>SSAP 9 Paras 2 and 11 vs IAS 10 Para 11</u> The definition of "equity instrument" is added in paragraph 2 and the cross-reference to IAS 32 is deleted in paragraph 11.</p> | <p>There is no SSAP equivalent to IAS 32.</p> |
| <p>(ii) <u>SSAP 9 Para 21b vs IAS 10 Para 21b</u> The cross-reference to IAS 35 is deleted.</p> | <p>There is no SSAP equivalent to IAS 35.</p> |
| <p>(iii) <u>SSAP 9 Para 21h vs IAS 10 Para 21h</u> The cross-reference to IAS 12 is deleted.</p> | <p>There is no SSAP equivalent to IAS 12.</p> |