



HOW TO DISTINGUISH ADJUSTING FROM NON-ADJUSTING POST BALANCE SHEET EVENTS UNDER UK GAAP

GUIDE

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In this guide the Financial Reporting Faculty summarises the requirements under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* relating to events after the end of the reporting period (hereafter referred to as 'post balance sheet events') and considers how entities might distinguish between adjusting and non-adjusting post balance sheet events.

While this guide is primarily aimed at those entities preparing accounts in accordance with FRS 102, consideration is also given to entities reporting under FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*. It does not cover disclosures required in the strategic report and directors' report.

This guide draws on the advice outlined in the Financial Reporting Council's (FRC) [Company Guidance Update](#) issued in March 2020 and last updated in December 2020. While this guidance was issued in the height of the COVID-19 pandemic, companies continue to face economic uncertainty and volatility. Rising energy costs, labour shortages and supply chain issues are significantly impacting entities. The war in Ukraine and its wider effects is exacerbating conditions and increasing global economic uncertainty. The FRC's guidance therefore continues to remain relevant.

POST BALANCE SHEET EVENTS – A RECAP

A fundamental principle in the preparation of accounts is that they should reflect the conditions that existed at the balance sheet date (FRS 102.4.1).

When preparing accounts, consideration must also be given to events which occur between the balance sheet date and the date when the accounts are authorised for issue ie, when the accounts are approved by the board of directors and signed on behalf of the board by a director of the company (FRS 102.32.2).

Information which comes to light after the balance sheet date that provides evidence of conditions that existed at the balance sheet date (adjusting post-balance sheet events) should be reflected in amounts recognised in the accounts (FRS 102.32.2 & 4).

Information indicative of conditions that arose after the balance sheet date (non-adjusting post balance sheet events) should be disclosed when material. This disclosure should include information on the nature of the event, and an estimate of its financial effect or a statement that such an estimate cannot be made (FRS 102.32.2 & 10).

Adjusting or non-adjusting

Significant judgement may be needed to determine the conditions that existed at the balance sheet date (FRS 102.32.2) and whether, therefore, the amounts recognised in the accounts need to be adjusted. This judgement will be heavily dependent on the balance sheet date in question, the entity's own individual circumstances, and the particular events under consideration.

When significant judgement has been applied in determining whether a post balance sheet event is adjusting or non-adjusting, this must be disclosed (FRS 102.8.6).

WAR IN UKRAINE

Reporting dates prior to 24 February 2022

While tensions were rising between Russia and Ukraine in the months prior, Russian troops first invaded Ukraine on 24 February 2022. For companies with balance sheet dates prior to 24 February 2022, the general consensus is that the war in Ukraine is a non-adjusting event (see our guide [War in Ukraine: the corporate reporting implications](#)). Therefore, entities are not required to adjust the amounts that appear in the accounts unless post balance sheet events call seriously into question the validity of the going concern assumption (see below).

As noted above, disclosures are required in the accounts for any non-adjusting post balance sheet events, when material. Directors will need to consider the impact of the war in Ukraine on the business, which will vary according to the specific circumstances in which it operates. This assessment may involve considering factors such as those outlined below.

Reporting dates on or after 24 February 2022

For UK entities with balance sheet dates on or after 24 February 2022, the war is a condition that existed at the balance sheet date that will require ongoing evaluation for events after the balance sheet date.

Entities will need to determine whether post balance sheet events provide more evidence about the impact of the war on the business or whether conditions have changed after the balance sheet date. Significant judgement will be required.

For example, UK entities with a balance sheet date of 31 March 2022 will need to consider whether post balance sheet events provide more evidence about the effect on the business of sanctions that were imposed prior to 31 March 2022. A UK entity with few international dependencies might determine that post balance sheet events do not change the effect of such sanctions on the business and that no adjustments are required to the amounts recognised in the accounts. On the other hand, a UK entity which is significantly reliant on imports or exports to Ukraine, Russia, Belarus or other affected countries within its supply chain, might reach a different conclusion.

In assessing the impact on the business, entities will also need to determine what could reasonably have been known at the balance sheet date. For example, the impact of the war on the price and supply of commodities might not have been foreseeable as at 31 March but could reasonably have been anticipated as at 30 April 2022.

It will be important for entities to incorporate a comprehensive post balance sheet review in the year-end reporting plan, particularly as the situation in Ukraine and its consequences, including the sanctions being imposed in response, change frequently. Information about sanctions relating to Russia can be found [here](#) and information on sanctions against Belarus is available [here](#).

FACTORS TO CONSIDER

Entities will need to identify the event(s) that they consider relevant to their individual circumstances and assess whether it reflects conditions at the balance sheet date. As described in the FRC's guidance – does the event shine a brighter light on conditions (at the balance sheet date) or did conditions change after the balance sheet date?

When making judgements about conditions that existed at the balance sheet date, entities will need to use all available information about the nature and timing of events. For example, consideration might be given to the impact of:

- changes in selling prices after the end of the reporting period which may give evidence about the valuation of inventory at the balance sheet date;
- other price changes and evidence of inflationary impacts that might provide evidence of asset valuations at the balance sheet date;
- changes in lockdown status and travel restrictions in countries around the globe affecting staff, customers and suppliers.

War in Ukraine

Consideration will need to be given to the continually changing circumstances relating to Russia's invasion of Ukraine. Factors might include:

- changes in the location of the war and the impact on the ability to trade with organisations or individuals in affected areas;
- the ability for entities to access assets in areas affected by the war;
- sanctions being imposed on organisations or individuals to which the entity is linked;
- the impact of the refugee crisis arising as a result of the war.

IMPLICATIONS FOR FORECASTING

Forecasting future income and cash flows is important when valuing certain items in the accounts, for example when estimating recoverable amounts. With the exception of going concern assessments, the estimated future cash flows must be based on conditions that existed at the balance sheet date, taking into account expectations as at that date about possible variations in the amount or timing of those future cash flows. Therefore, the estimation of a recoverable amount might be very different for the same asset if the calculation was performed for a 31 December 2021 year end and say, a 31 March 2022 year end. In these situations, judging whether an event is adjusting or non-adjusting will be particularly significant.

GOING CONCERN

A review of post balance sheet events is also important when assessing the basis on which the accounts are prepared. In accordance with FRS 102.3.8 and FRS 102.32.7A, entities are not permitted to prepare accounts on a going concern basis if management has determined after the balance sheet date that it either intends to:

- liquidate the entity; or
- cease trading, or that it has no realistic alternative but to do so.

FRS 102 states that a 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 (FRS 102.32.7B).

If management concludes that the entity is a going concern, but is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, details of those uncertainties must be disclosed in the accounts (FRS 102.3.9).

If management determines that the going concern assumption is no longer appropriate, FRS 102 considers the effect to be so pervasive that a fundamental change in the basis of accounting is required ie, the accounts must not be prepared on the going concern basis.

When the accounts have not been prepared on the going concern basis, entities are required to disclose that fact, together with the basis on which the accounts have been prepared, and the reason why the entity is not regarded as a going concern (FRS 102.3.9). FRS 102 does not specify

the basis on which the accounts should be prepared, when not prepared on the going concern basis.

Further guidance on the disclosures required in relation to going concern assessments can be found in the FRC's [Company Guidance Update](#). The faculty's guidance Going concern considerations – a guide for FRS 102 reporters [link to be inserted] is also available.

SMALL ENTITIES AND SECTION 1A OF FRS 102

With the exception of the disclosures relating to going concern (see below) the recognition, measurement and disclosure requirements set out in this guide also apply to entities applying FRS 102 Section 1A Small Entities.

Although entities applying Section 1A are not required to provide the disclosures relating to going concern outlined in this guide, they are nevertheless encouraged, when relevant, to provide this information (FRS102.1AE.1).

Furthermore, while there are legal restrictions on the information that can be mandated in small entity accounts, those accounts must still give a true and fair view. Therefore, judgement must be applied when considering whether further disclosures, over and above those specifically required by Section 1A of FRS 102, will be needed in order for the accounts to give a true and fair view.

MICRO-ENTITIES AND FRS 105

The principles for the recognition and measurement requirements relating to post balance sheet events, as outlined in this guide, are the same for an entity applying FRS 105. However, an entity applying FRS 105 is not required to make any of the disclosures outlined in this guide. Indeed, very limited disclosures are required in micro-entity accounts, and provided these and other basic legal requirements are complied with, the accounts are presumed by law to give a true and fair view.

That is not to say that a micro-entity cannot choose to disclose additional information, including for example, in relation to post balance sheet events. However, if it does choose to include additional information, over and above that required by FRS 105, it must refer to the relevant requirements of Section 1A Small Entities of FRS 102 regarding that information.

RELATED RESOURCES

- [ICAEW Ukraine crisis hub](#)
Visit our Ukraine crisis resource centre to find out about the latest developments, the impact of sanctions and the implications for the profession.
The hub includes:
 - [War in Ukraine: the corporate reporting implications](#)
 - [Guide to the auditing implications of the war in Ukraine](#)
- [ICAEW coronavirus hub](#)
Our coronavirus hub brings together all resources related to COVID-19 including information on tax, help for business and much more.
- [Small and micro-entity reporting](#)
ICAEW's hub outlines the eligibility criteria and the options available to small and micro-entities for preparing and filing their accounts.

ICAEW members, affiliates or members of staff in an eligible firm with member firm access may also discuss their specific situation with the Technical and Ethics Advisory Services. The telephone helpline can be contacted on +44 (0) 1908 248 250. Live web chat is also available [here](#).

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Chartered Accountants' Hall
Moorgate Place, London
icaew.com

T +44 (0)20 7920 8100
E generalenquiries@icaew.com