

Financial Reporting Advisory Board Paper

SECRETARIAT PAPER

FRS 21 (IAS 10): Events after the balance sheet date

Issue:	Incorporating FRS 21 into the FReM.
Impact on guidance:	Yes
UK GAAP adaptation?	No
IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
Impact on budgetary regime?	No
Recommendation:	That the Board approves the proposed wording for the FReM.
Timing:	2006-07

DETAIL

Background

1. The Board first considered FRS 21 (IAS 10) *Events after the balance sheet date* at its meeting in September 2004 (FRAB (69) 02). With one exception – the treatment of dividends – FRS 21 is very similar to SSAP 17 *Accounting for post balance sheet events*, which it replaces.

2. FRS 21 argues that proposed dividends do not meet the definition of a liability given in FRS 12. Trading funds and NHS (and now, too, Foundation) Trusts pointed out that the arguments do not easily read across to ‘dividends’ on Public Dividend Capital (PDC), where the arrangements are such that they are normally required to pay a ‘dividend’ and know what that ‘dividend’ will be before the year end. The Board considered the treatment of ‘dividends’ on PDC and concluded at the September 2004 meeting that PDC was analogous to preference shares and so the ‘dividends’ could continue to be recognised as expenditure.

3. This decision was overtaken by the publication of the financial instrument standards (FRS 25 and FRS 26), which called into question the analogy between PDC and preference shares. The Board discussed this at its February 2005 meeting (FRAB (71)) and its 2004-05 Report noted that it accepted the need for the Treasury, together with the Department of Health and Monitor, to clarify the classification of PDC before implementing the financial instruments standards and that meant delaying the implementation of FRS 21.

4. The Board discussed the classification of PDC at its meetings in September 2005 (FRAB (75) 04) and November 2005 (FRAB (76) 04). After some discussion, the Board agreed with the conclusion reached by the Treasury, the Department of Health and Monitor that PDC is not a financial instrument within the meaning of the financial instrument standards. It can continue to be accounted for as a form of financing on the balance sheet with accumulated reserves, and 'dividends' can continue to be recognised as liabilities.

Implementing FRS 21 (IAS 10) for 2006-07

5. SSAP 17 applied in full, interpreted in respect of the date of issue of the accounts as it relates to the auditor's review of post-balance sheet events.

6. FRS 21 will continue to be interpreted in the same way – but linked to not only to the auditor's review but also to the need under FRS 21 to disclose the date of approval. In addition, FRS 21 needs to be interpreted in relation to the treatment of 'dividends' on PDC.

UK GAAP compliance

7. The proposed implementation of FRS 21 complies with UK GAAP except that it has been delayed for one year with the Board's agreement.

IAS/IFRS compliance

8. The proposal complies with IAS 10 *Events after the balance sheet date*.

IPSAS compliance

9. The proposal complies with the IPSASB exposure draft (ED 26) for improvements to, among other IPSASs, IPSAS 14 *Events after the balance sheet date*.

Proposed amendment to the Government Financial Reporting Manual

10. See Annex A for the proposed amendments to chapter 7 of the FReM.

Summary and recommendation

11. The Board is invited to approve the proposed amendment to the FReM implementing FRS 21 from 2006-07.

David Watkins
18 April 2006

PROPOSED AMENDMENT TO THE GOVERNMENT FINANCIAL REPORTING MANUAL

FRS 21 Events after the balance sheet date

Applicability

7.4.21 FRS 21 applies in full to all entities covered by this Manual.

Objectives of FRS 21

7.4.22 The objectives of FRS 21 are to prescribe when an entity should adjust its financial statements for events after the balance sheet date and what disclosures should be given about events after the balance sheet date, and to require disclosure of the date when the financial statements are authorised .

Interpretation of FRS 21 for the public sector context

7.4.23 In applying FRS 21, entities should be aware of the following interpretations for the public sector context:

- a) Public Dividend Capital is not a financial instrument within the meaning of FRS 25 *Financial instruments: disclosure and presentation*. Unpaid dividends in respect of Public Dividend Capital shall continue to be recognised as liabilities at the balance sheet date; and
- b) the dates of authorisation for issue of the financial statements of the entities covered by this Manual have been interpreted in Practice Note 10 (*Audit of financial statements of public sector entities in the United Kingdom*). The dates are set out in the table below.

Type of entity	Date of issue of financial statements
Entities where the statutory auditors are responsible for the printing of the document containing the audited financial statements.	Date of despatch by the auditors to the Clerk of the House of Commons or House of Lords for laying before Parliament .
Entities where the financial statements are laid before the Houses of Parliament by the Secretary of State of the sponsoring departments or by HM Treasury, and where the statements are considered by an intermediate body* before being laid before Parliament .	Date of despatch by the entity's management to the Secretary of State of the sponsoring department or to HM Treasury, or to the members of the intermediate body, whichever is the earlier.
National Assembly for Wales and its sponsored public bodies.	Date of despatch by the Auditor General or the body or other persons specified by legislation (where applicable) to the Table Office of the National Assembly.
Entities in Scotland.	Date of despatch by the Auditor General to Scottish Ministers for laying before Parliament.
Entities in Northern Ireland.	Date of despatch by the department, body or persons specified by legislation for laying before

	the Northern Ireland Assembly.
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* An intermediate body is interpreted as being a Board of Trustees or other Board, the members of which are not permanent officials of the entity.
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