

**STATEMENT OF
FINANCIAL ACCOUNTING STANDARD**

SFAS No.

8

INDONESIAN INSTITUTE OF ACCOUNTANTS

**CONTINGENCIES AND EVENTS OCCURRING AFTER
THE BALANCE SHEET DATE**

Statement of Financial Accounting Standard (SFAS) No.8, Contingencies and Events Occurring After the Balance Sheet Date, was adopted by a meeting of the Indonesian Accounting Principles Committee on August 24, 1994 and was ratified by the Executive Committee of the Association of Indonesian Accountants on September 7, 1994.

Compliance with the policies contained in this Statement is not obligatory in the case of immaterial items.

Jakarta, September 7, 1994

Executive Committee
Association of Indonesian Accountants

Indonesian Accounting Principles Committee

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CONTENTS

	<u>paragraphs</u>
INTRODUCTION	01-02
Objective	
Scope.....	01
Definitions.....	02
EXPLANATION	03-25
Contingencies.....	03-06
The Accounting Treatment for Contingent Losses.....	07-12
The Accounting Treatment for Contingent Gains.....	13
Determining the Amounts at which Contingencies are Included in Financial Statements.....	14-16
Events Occurring After the Balance Sheet Date.....	17-23
Disclosure of Contingencies.....	24
Disclosure of Events Occurring After the Balance Sheet Date.....	25
STATEMENT OF FINANCIAL ACCOUNTING STANDARD No. 8 CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE	26-34
Contingencies.....	26-28
Events Occurring After the Balance Sheet Date.....	29-31
Disclosure.....	32-33
Effective Date.....	34

INTRODUCTION

Objective

This statement deals with the treatment in financial statements of:

- (a) contingencies, and
- (b) events occurring after the balance sheet date.

Scope

01 The following subjects, which may result in contingencies, are excluded from the scope of this statement:

- (a) liabilities of life insurance companies arising from policies issued;
- (b) obligations under retirement benefit plans;
- (c) commitments arising from long term lease contracts; and
- (d) income taxes.

Definitions

02 The terms used in this Statement are defined as follows:

Contingencies are conditions or situations of which the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence, or non-occurrence, of one or more uncertain future events.

Events occurring after the balance sheet date are favorable and unfavorable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue.

Two types of events can be identified:

- (1) Events that provide further evidence of conditions that existed at the balance sheet date; and
- (2) Events that are indicative of conditions that arose subsequent to the balance sheet date.

EXPLANATION

Contingencies

03 In this Statement, the term contingencies is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Many such conditions or situations are reflected in accruals in financial statements in following the fundamental accounting concept of accrual.

04 Estimates are required in financial statements for the many ongoing and recurring activities of an enterprise. The fact that an estimate is involved, however, does not of itself create the type of uncertainty which characterizes a contingency, although the procedures for determining the amounts stated in the financial statements may be similar. For example, the fact that estimates of useful life are used to determine depreciation does not make depreciation a contingency; the eventual expiry of the useful life of the assets is not uncertain. Amounts owed for services received are also not contingencies as defined in paragraph 2, even though the amounts may have been estimated; there is nothing uncertain about the fact that these obligations have been incurred.

05 The uncertainty relating to future events can be expressed by a range of outcomes. This range may be presented as quantified probabilities, but in most circumstances this suggests a level of precision that is not supported by the available information. The range of outcomes can also be presented by general descriptions, using terms ranging from probable to remote.

06 The estimates of the outcome and of the financial effect of contingencies are determined by the judgment of the management of the enterprise. This judgment is based on consideration of up-to-date information on which the financial statements are authorized for issue. It will include a review of events occurring after the balance sheet date, supplemented by experience of similar transactions and, in some cases, reports from independent experts.

The Accounting Treatment for Contingent Losses

07 The accounting treatment for a contingent loss is determined by the expected outcome of the contingency. If it is probable that a contingency will result in a loss to the enterprise, it is prudent to accrue that loss in the financial statements.

08 The estimation of the amounts of a contingent loss to be accrued in the financial statements may be based on information that provides a range of amounts which could result from the contingency loss. The best estimate of the loss within such a range is accrued. When no amount within the range is indicated as a better estimate than any other amount, at least the minimum amount in the range is accrued. Any additional exposure to loss is disclosed if there is a possibility of loss in excess of the amount accrued.

09 If there is conflicting or insufficient evidence on which to estimate the amount of a contingent loss, then disclosure is made of the existence and nature of the contingency.

10 A potential loss to an enterprise may be reduced or avoided because a contingent liability is matched by a related counter-claim, or a claim against a third party. In such cases the amount of any accrual may be determined after taking into account the probable recovery under the claim.

11 The existence and amount of guarantee obligations arising from discounted bills of exchange and similar obligations undertaken by an enterprise are generally disclosed in financial statements by way of note, even though it is remote that a loss to the enterprise will occur.

12 Amounts accrued for general or unspecified business risks do not relate to conditions or situations existing at the balance sheet date, and therefore are not justified as provisions for contingencies.

The Accounting Treatment for Contingent Gains

13 Contingent gains are not accrued in financial statements since this may result in the recognition of revenue which may never be realized. However, when the realization of a gain is virtually certain, then such a gain is not a contingency and accrual of the gain is appropriate.

Determining the Amounts at which Contingencies are Included in Financial Statements

14 The amount at which a contingency is stated in a financial statement is based on the information available on the day the financial statement is authorized for issue. Events occurring after the balance sheet date that indicate an asset may have been impaired or that a liability may have existed at the balance sheet date are taken into account in identifying contingencies and are therefore included in financial statements.

15 In some cases each contingency can be separately identified, and the special circumstances of each situation considered in the determination of the amount of the contingency. A substantial legal claim against the enterprise might represent such a contingency. Among the factors taken into account by management in evaluating the contingency are the progress of the claim at the date on which the financial statements are authorized for issue, the opinion of legal experts or other advisers, and the experience of other enterprises in similar situations.

16 If the uncertainties which created a contingency in respect of an individual transaction are common to a large number of similar transactions, then the amount of the contingency may be based on the group of similar transactions rather than determined individually. Examples of such contingencies may be warranties for products sold and the estimated uncollectible portion of account receivables. These costs are usually incurred

frequently and experience provides a means by which the amount of the liability or loss can be estimated with reasonable precision even though the particular transactions that may result in a loss are not identified. Accrual of these costs results in their recognition in the same accounting period in which the related transactions took place.

Events Occurring After the Balance Sheet Date

17 Events which occur between the balance sheet date and the date on which the financial statements are authorized for issue may indicate the need for adjustments to assets and liabilities, or may require disclosure.

18 The process involved in the authorization for issue of the financial statements will vary with management structures and the procedures followed in preparing and finalizing financial statements, but the date of authorization for issue would normally be the date on which the statements are authorized for issue outside the enterprise.

19 Adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information for determining the amounts relating to conditions existing at the balance sheet date. For example, adjustments may be made for a loss on a trade receivable account which is confirmed by the bankruptcy of a customer after the balance sheet date.

20 Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date if the events do not relate to conditions existing at the balance sheet date. An example is the decline in market value of investments between the balance sheet date and the date on which the financial statements are authorized for issue. The fall in market value does not normally relate to the condition of the investment at the balance sheet date, but reflect circumstances which have occurred in the following period. Disclosure, however, is generally made of events in subsequent periods that represent unusual changes to the condition of assets or liabilities at the balance sheet date. For example, the destruction of a major production plant by a fire after the balance sheet date.

21 Events occurring after the balance sheet date that are indicative of conditions that arose subsequent to the balance sheet date are disclosed if their non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions. An example of such an event would be a major acquisition of another enterprise.

22 There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. These special items include the amounts of the dividend proposed or declared after the balance sheet in respect of the period covered by the financial statements.

23 Events occurring after the balance sheet date may indicate that the whole or part of the enterprise's business ceases to be a going concern. A deterioration in operating results

and financial position after the balance sheet date may indicate a need to consider whether it is proper to use the going concern assumption in the preparation of financial statements.

Disclosure of Contingencies

24 If a contingent loss is not accrued, its nature and an estimate of its financial effect is generally disclosed in a note in financial statements unless the possibility of a loss is remote. However, if a reliable estimate of the financial effects cannot be made, this fact is disclosed. Contingencies which are accrued may warrant separate disclosure. The existence and nature of contingent gains are usually disclosed in a note in financial statements if it is probable that the gain will be realized by the enterprise. It is important that the disclosure avoid misleading implications as to the likelihood of realization.

Disclosure of Events Occurring After the Balance Sheet Date

25 When the effects of events occurring after the balance sheet date are disclosed in the notes to the financial statements, it must include a description of the events and an estimate, if possible, of their financial effects.

STATEMENT OF FINANCIAL ACCOUNTING STANDARD NUMBER 8**CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Statement of Financial Accounting Standard No. 8 consists of paragraphs 26-34. This Statement should be read in the context of paragraphs 1-25.

Contingencies

26 The amount of contingent loss (after taking into account any related probable loss) should be accrued by a charge in the profit/loss statements if:

- (a) it is probable that future events will confirm that an asset has been impaired or a liability incurred at the balance sheet date; and
- (b) a reasonable estimate of the resulting loss can be made.

27 The existence of a contingent loss should be disclosed in financial statements if either of the conditions in paragraph 26 are not met, unless the possibility of a loss is remote.

28 Contingent gains should not be accrued in financial statements. The existence of contingent gains should be disclosed if it is probable that the gain will be realized.

Events Occurring After the Balance Sheet Date

29 Assets and liabilities should be adjusted for events occurring after the balance sheet date that assist with estimating amounts relating to conditions existing at the balance sheet date or that indicate that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

30 Dividends stated to be in respect of the period covered by the financial statements and that are proposed or declared after the balance sheet date, but before approval of the financial statements, should be either adjusted for or disclosed.

31 Assets and liabilities should not be adjusted for, but disclosure should be made of, events occurring after the balance sheet date that do not affect the condition of assets or liabilities at the balance sheet date, but are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

Disclosure

32 The disclosure of contingencies which is required by paragraph 27 or 28 of this Statement, should include the following information:

- (a) the nature of the contingency;
- (b) the uncertain factors that may affect future outcomes; and
- (c) an estimate of the financial effect, or a statement that such an estimate cannot be made.

33 If disclosure of events occurring after the balance sheet date is required by paragraph 31 of this Statement, the following information should be provided:

- (a) the nature of the event; and
- (b) an estimate of the financial effects, or a statement that such an estimate cannot be made.

Effective Date

34 This Statement becomes effective for financial statements covering periods beginning on or after January 1, 1995. Earlier application is encouraged.