

8 LIABILITIES

8.1 Trade and other Payables

8.1.1 Introduction

8.1.1.1 Authorities shall account for trade and other payables in accordance with the principles of expenditure recognition, *IAS 18 Revenue*, *IPSAS 23 Revenue from Non-Exchange transactions (Taxes and Transfers)* and *IAS 39 Financial Instruments: Recognition and Measurement*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

8.1.1.2 *IPSAS 9 Revenue from Exchange Transactions* is based on *IAS 18*, and provides additional guidance for public sector bodies.

8.1.1.3 This section of the Code must be read in conjunction with section 2.7 (revenue recognition) and chapter 7 section 2 (accounting for financial liabilities after initial recognition) of the Code.

Interpretation and adaptation for the Public Sector Context

8.1.1.4 No interpretations or adaptations of *IAS 18* and *IPSAS 23* are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of trade and other receivables.

8.1.1.5 *IPSAS 9* includes a public sector adaptation which the Code has adopted. The adaptation is as follows:

Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

8.1.1.6 The Code includes an interpretation of *IAS 39* as follows:

Recognition and measurement

- Financial liabilities (i.e. trade and other payables) relating to such things as council tax, general rates, etc shall be measured at the full amount payable as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

8.1.2 Accounting Requirements

Definitions

8.1.2.1 *Exchange transactions* are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

8.1.2.2 *Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

- 8.1.2.3 *Non-exchange transactions* are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- 8.1.2.4 *Revenue* is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.
- 8.1.2.5 *Trade and other payables* are financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

Recognition and measurement

- 8.1.2.6 Trade and other payables are not recognised when an authority becomes committed to purchase the goods or services but when the ordered goods or services have been delivered or rendered.
- 8.1.2.7 Trade and other payables shall be recognised and measured at the fair value of the consideration payable except for a financial liability that is measured under chapter 7 of the Code.
- 8.1.2.8 In most cases, the consideration payable is in the form of cash and cash equivalents and the amount of expense is the amount of cash and cash equivalents payable. However, if payment is on deferred terms (i.e. beyond normal credit terms), the consideration payable is recognised initially at the cash price equivalent, (that is the discounted amount). The difference between this amount and the total payments is recognised as interest expense in Surplus or Deficit on provision of services. Short duration payables with no stated interest rate may be measured at original invoice amount if the effect of discounting is immaterial (see chapter 7 of the Code).
- 8.1.2.9 There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions i.e. expense relating to council tax and general rates, and therefore these transactions shall be measured at their full amount payable (see chapter 7).
- 8.1.2.10 In the event that consideration is received but the revenue does not meet the revenue recognition criteria set out in chapter 3 section 1x, an authority shall recognise a creditor (i.e. receipt in advance) in respect of that inflow of resources.

8.1.3 *Statutory Accounting Requirements*

- 8.1.3.1 There are no statutory accounting requirements in relation to trade and other payables.

8.1.4 *Disclosure Requirements*

- 8.1.4.1 Disclosure of accounting policies in relation to trade and other payables is required (see section 3.4 of the Code).

8.1.4.2 Having regard to paragraph 3.5.2.23 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to trade and other payables:

- (1) An analysis of the amount of trade and other payables between:
 - a) central government bodies;
 - b) other local authorities;
 - c) NHS bodies;
 - d) public corporations and trading funds;
 - e) bodies external to government.
- (2) Disclosures as set out in the Financial Instruments section (see chapter 7), where payment is on deferred settlement terms.

8.1.5 Statutory Disclosure Requirements

8.1.5.1 There are no statutory disclosures required in relation to trade and other payables.

8.1.6 Changes since SORP 2009

8.1.6.1 There have been no changes in accounting for trade and other payables since SORP 2009.

Transition arrangements – Trade and other Payables

There are expected to be no transition issues arising from trade and other payables.

8.2 Provisions, Contingent Liabilities and Contingent Assets

8.2.1 Introduction

8.2.1.1 Authorities shall account for provisions, contingent liabilities and contingent assets in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, *IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities*, *IFRIC 5 Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and *IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

8.2.1.2 *IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets* is based on *IAS 37*, and provides additional guidance for public sector bodies.

8.2.1.3 This section of the Code does not cover provisions, contingent liabilities and contingent assets in relation to:

- Those provisions and contingent liabilities arising from social benefits provided by an authority for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits (other than through the normal accruals process);
- Financial instruments (including measurement of financial guarantees after initial measurement) that are within the scope of Chapter 7;
- Those resulting from executory contracts, other than where the contract is onerous subject to other provisions of this paragraph; and
- Where another section of the Code deals with a specific type of provision, contingent liability or contingent asset, instead an authority applies that section of the Code instead of this section, for example; construction contracts (chapter 5 section 2), income taxes (Appendix A paragraph A.1.2), leases (chapter 4 section 2), employee benefits (chapter 6), insurance contracts (Appendix A paragraph A.1.7).

8.2.1.4 This section of the Code applies to provisions for restructuring (including discontinuing operations). In some cases, a restructuring may meet the definition of a discontinuing operation (see chapter 4 section 9).

Interpretation and adaptation for the Public Sector Context

8.2.1.5 No interpretations or adaptations of *IAS 37* and *IPSAS 19* are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of provisions, contingent liabilities and contingent assets.

8.2.1.6 *IFRIC 1* provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities recognised as a liability, in accordance with this section of the Code. It is not

expected that these transactions will be common for authorities. Where an authority considers it has relevant transactions, it shall refer to *IFRIC 1*.

8.2.1.7 *IFRS 5* provides guidance on the accounting in the financial statements of a contributor for interests arising from decommissioning funds, that have certain specific features. It also includes that the contributor shall determine whether it has control, joint control or significant influence over the fund by reference to *IAS 27, IAS 28, IAS 31* and *SIC 12*. If it does, the contributor shall account for its interest in the fund in accordance with those Standards. In applying *IFRIC 5*, authorities shall comply with the Group Accounts section of the Code (see chapter 10). It is not expected that these transactions will be common for authorities. Where an authority considers it has relevant transactions, it shall refer to *IFRIC 5*.

8.2.1.8 *IFRIC 6* provides guidance on the recognition in the financial statements of producers of liabilities for waste management under the EU Directive on Waste Electrical and Electronic Equipment (WE&EE). It is not expected that these transactions will be common for authorities. Where an authority considers it has relevant transactions, it shall refer to *IFRIC 6*.

8.2.1.9 Many authorities are experiencing large numbers of claims for back pay from appeals about unequal pay arising from the implementation of the single status agreement. In some cases these claims can take several years to settle. Provisions for such claims shall be made in accordance with this section of the Code.

8.2.2 Accounting Requirements

Definitions

8.2.2.1 A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

8.2.2.2 A *contingent liability* is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority; or
- a present obligation that arises from past events but is not recognised because:
 - (a) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - (b) the amount of the obligation cannot be measured with sufficient reliability.

8.2.2.3 A *constructive obligation* is an obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities; and
 - as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
- 8.2.2.4 *Executory contracts* are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
- 8.2.2.5 A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential.
- 8.2.2.6 A *legal obligation* is an obligation that derives from:
- a contract (through its explicit or implicit terms);
 - legislation; or
 - other operation of law.
- 8.2.2.7 An *obligating event* is an event that creates a legal or constructive obligation that results in an authority having no realistic alternative to settling that obligation.
- 8.2.2.8 An *onerous contract* is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.
- 8.2.2.9 A *provision* is a liability of uncertain timing or amount.
- 8.2.2.10 A *restructuring* is a programme that is planned and controlled by management, and materially changes either:
- the scope an authority's activities; or
 - the manner in which those activities are carried out.
- 8.2.2.11 *Social benefits* refer to goods, services and other benefits provided in the pursuit of the social policy objectives of an authority.

Provisions - Recognition and measurement

- 8.2.2.12 A provision shall be recognised when:
- an authority has a present obligation (legal or constructive) as a result of a past event;
 - it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

- a reliable estimate can be made of the amount of the obligation.

- 8.2.2.13 If the above conditions are not met, no provision shall be recognised.
- 8.2.2.14 In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date. A past event that leads to a present obligation is called an obligating event.
- 8.2.2.15 The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision. Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.
- 8.2.2.16 Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. The unwinding of the discount due to the passage of time shall be recognised as interest within Surplus or Deficit on provision of services.
- 8.2.2.17 If an authority has a contract that is onerous, the present obligation (net of recoveries) under the contract should be recognised and measured as a provision. Provisions shall also be recognised for restructuring costs where they meet the recognition criteria set out in paragraph 8.2.2.12. Provisions shall not be recognised for future operating losses.
- 8.2.2.18 Recognition of a provision will be charged to Surplus or Deficit on provision of services, although where recognition relates to an inflow of resources this might justify recording an asset however this is not expected to be common in authorities. Should authorities deem the recognition of an asset relevant, they should refer to *IAS 37*.
- 8.2.2.19 Once the uncertainty of the amount is removed, the provision shall be reclassified as a creditor (or recognised as cash where consideration has been received) in the financial statements.
- 8.2.2.20 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability.

Contingent liabilities - Recognition and measurement

- 8.2.2.21 An authority shall not recognise a contingent liability in the financial statements but disclose as a note to the accounts, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.
- 8.2.2.22 Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or

service potential will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). A contingent liability shall be disclosed in the extremely rare case where a liability exists but a reliable estimate cannot be made.

Contingent assets - Recognition and measurement

- 8.2.2.23 An authority shall not recognise a contingent asset in the financial statements but disclose as a note to the accounts where an inflow of economic benefits or service potential is probable.
- 8.2.2.24 Contingent assets shall not be recognised if it is not probable that there will be an inflow of economic benefit or service potential or it cannot be reliability measured.
- 8.2.2.25 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change occurs.

Provisions - Reimbursements

- 8.2.2.26 In the event that some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the authority settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. The expense relating to a provision may be presented net of the amount recognised for a reimbursement in Surplus or Deficit on provision of services.

Changes in Provisions

- 8.2.2.27 Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed. The change in the carrying amount of a provision as a result of discounting is referred to in paragraph 8.2.2.16.

Use of Provisions

- 8.2.2.28 A provision shall be used only for expenditures for which the provision was originally recognised.

8.2.3 Statutory Accounting Requirements

- 8.2.3.1 In England and Wales, regulations (SI 2007/573 for England and SI 2007/1051 for Wales) permit an authority to defer the impact of any provision made for

back pay arising out of unequal pay claims on a revenue account. Deferral beyond 1 April 2011 is not permitted by the regulations.

8.2.3.2 Where an authority elects to apply the regulation, the difference between the amount of expenditure included in Surplus or Deficit on provision of services in each year and the amount charged under the regulations shall be debited to the Unequal Pay Back Pay Account, with a corresponding credit to the appropriate revenue account

8.2.3.3 To the extent that a provision is derecognised (for example where payments are made to a group of employees), an authority shall credit the Unequal Pay Back Pay Account, with a corresponding debit to the appropriate revenue account.

8.2.4 Disclosure Requirements

8.2.4.1 Disclosure of accounting policies in relation to provisions, contingent liabilities and contingent assets is required (see section 3.4 of the Code).

8.2.4.2 Having regard to paragraph 3.5.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to provisions, contingent liabilities and contingent assets:

- (1) For each class of provision, an authority shall disclose:
 - (a) the carrying amount at the beginning and end of the period;
 - (b) additional provisions made in the period, including increases to existing provisions;
 - (c) amounts used (ie incurred and charged against the provision) during the period;
 - (d) unused amounts reversed during the period; and
 - (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

- (2) An authority shall disclose the following for each class of provision:
 - (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;
 - (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an authority shall disclose the major assumptions made concerning future events; and
 - (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.
- (3) Unless the possibility of any outflow in settlement is remote, an authority shall disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:
 - (a) an estimate of its financial effect; measured using the principles set out in the Code
 - (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
 - (c) the possibility of any reimbursement.

- (4) Where an inflow of economic benefits or service potential is probable, an authority shall disclose a brief description of the nature of the contingent assets at the balance sheet date, and, where practicable, an estimate of their financial effect, measured using the principles set out in the Code
- (5) Where any of the information required by paragraphs 3 and 4 above is not disclosed because it is not practicable to do so, that fact shall be stated.
- (6) In extremely rare cases, disclosure of some or all of the information required by paragraphs 1-4 above can be expected to prejudice seriously the position of the authority in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an authority need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

8.2.5 Statutory Disclosure Requirements

- 8.2.5.1 There are no statutory disclosures required in relation to provisions, contingent liabilities and contingent assets.

8.2.6 Changes since SORP 2009

- 8.2.6.1 There have been no changes in accounting for provisions, contingent liabilities and contingent assets since SORP 2009.

Transition arrangements – Provisions, Contingent Liabilities and Contingent Assets

There are expected to be no transition issues arising from provisions, contingent liabilities and contingent assets.