

**Statement of  
Financial Accounting Standards  
No. 9**

**15 September 1986**

Translated by

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**Financial Accounting Standards Committee**

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**Contingencies and Subsequent Events**

**I Introduction**

- (1) This Statement establishes accounting standards for contingencies and subsequent events.
- (2) Due to their unusual nature, this Statement does not apply to the following items that may result in contingent liabilities:
  - (a) the obligations of life insurance companies;
  - (b) pension obligations;
  - (c) commitments to long-term lease contracts; and
  - (d) the obligations of income taxes.

**II Explanation**

**Contingencies**

- (3) A contingency is defined as an existing fact or condition as at the date of the balance sheet involving uncertainty as to a possible gain or loss to a business that will be resolved when one or more future events occur or fail to occur. Such gain or loss before the resolution of such uncertainty is called a *gain contingency* or a *loss contingency*.

- (4) As mentioned in the preceding paragraph, the likelihood that the future event or events will occur can vary as follows:
- (a) *probable*: the future event or events are likely to occur;
  - (b) *reasonably possible*: the chance of the future event or events occurring is more than remote but less than likely;
  - (c) *remote*: the chance of the future event occurring is slight.
- (5) Before the issuance of their financial statements, businesses should examine information available including past experiences, expert opinions, the circumstances of events, evaluate contingencies and estimate their likelihood, and the potential amount of gains or losses.
- (6) Adhering to the revenue recognition criteria, gain contingencies are not accrued since their realization is not certain. Adequate disclosure shall be made considering the likelihood of their occurrences.
- (7) Adhering to the principal of conservatism, loss contingencies should be accrued if it is probable and the losses can be reasonably estimated. Adequate disclosure of other loss contingencies shall be made considering the circumstances of events.
- (8) If a range of possible loss exists, the most likely amount in the range should be accrued. However, if the most likely scenario is that no loss figure shall result, then the lower estimate of the range must be recorded, and the possibility of additional losses should be disclosed. If there exists a definite claim for damages, the amount should be deducted from the estimate of the loss.
- (9) Loss contingencies usually result from:
- (a) non-collectibility of receivables;
  - (b) obligations related to product and service warranties, or indemnities for product defects;

- (c) loss or damage of enterprise property by fire, explosion, or other hazards beyond the insurance coverage;
- (d) threat of expropriation of assets by governments;
- (e) loss related to pending or threatened tax litigation, and infringements such as copyrights and patents;
- (f) loss related to guarantees of indebtedness of others; and
- (g) loss related to the obligations of commercial banks under standby letters of credit.

### **Subsequent events**

- (10) Subsequent events are significant events occurring between the balance sheet date and issuance date of the financial statements. These events may be able to provide additional evidence with respect to conditions that existed at the balance sheet date and affect the financial position of the business, or may indicate conditions that arose subsequent to the balance sheet date. The former should result in proper adjustments to the financial statements because it has an impact on the valuation of items on the balance sheet; while the latter should be properly disclosed since it may provide useful information with respect to assessing the business' future financial position.
- (11) The issuance date of the financial statements is usually the date when, after the business' internal procedures are completed, statements are made public. However, if the statements are audited by CPAs, the issuance date is the date of the auditors' report.
- (12) If subsequent events have an impact on the valuation of assets and liabilities, proper adjustment should be made (eg, accounts receivable on the balance sheet date become delinquent because debtors file for bankruptcy between the balance sheet date and issuance date owing to long-term mismanagement).
- (13) Proper disclosure should be made if subsequent events could

provide useful information for assessing a business' future financial position. For example:

- (a) accounts receivable on the balance sheet date become uncollectible due to unexpected events arising subsequent to the balance sheet date;
  - (b) a significant decline in market values of certain marketable securities between the balance sheet date and the issuance date of the financial statements;
  - (c) destruction of significant equipment as a result of incidental disasters after the balance sheet date;
  - (d) a significant business is purchased after the balance sheet date; and
  - (e) a new bond or capital stock issuance after the balance sheet date.
- (14) If subsequent events indicate that part or all of the business will not continue operations, then the business shall consider whether it is still proper to adopt the going-concern assumption in the preparation of the financial statements.

### III Accounting standards

#### Contingencies

- (15) A loss should be recognized if both of the following condition of a loss contingency are met.
- (a) from the circumstances, it is probable that an asset has been impaired or a liability has been incurred by the date of the financial statements; and

- (b) the amount of loss, after deducting compensation for damage, can be reasonably estimated.

- (16) If one of the following conditions for a loss contingency is met, the nature of the contingency and the estimated amount or range of the loss should be disclosed in the footnotes to the financial statements; if a reasonable estimate of the amount is not possible, disclosure should be made to describe the fact that no estimated amount is determinable:
- (a) the first condition of paragraph 15 is met, but the second condition is not; or
  - (b) from the circumstances of related events, it is reasonably possible that an asset had been impaired or a liability had been incurred at the date of the financial statements.
- (17) If circumstances are remote that an asset has been impaired or a liability has been incurred at the date of the financial statements, disclosure in the financial statements can be made to describe the existence and nature of the loss contingency and an estimate of the possible loss or range of loss.
- (18) Irrespective of whether the gains of contingencies can be reasonably estimated, if it is probable that such gains will be realized, then disclosure should be made on the balance sheet, but care shall be exercised to avoid misleading implications of its realization. If the gain is possible, disclosure could be made on the balance sheet, but care shall be exercised to avoid misleading implications as to the likelihood of realization. If the gain is remote, it should not be disclosed in the financial statements.

#### Subsequent events

- (19) If subsequent events can provide additional definite evidence with respect to conditions that existed on the balance sheet date and affect the financial position of the business, or indicate that it is not appropriate for companies to continue the going-concern

assumption, then adjusting entries to related assets and liabilities should be made.

- (20) Subsequent events may have no impact on the condition of assets or liabilities that existed on the balance sheet date, but indicate significant changes between the balance sheet date and the issuance date or possible significant changes in operations. The disclosure of their nature in the financial statements is required if these events effect valuation and decisions being made by readers of the financial statements. If the subsequent events have a financial effect on the business, an estimate as to the effect or a statement that an estimate cannot be made should be disclosed.

#### **IV Notes**

- (21) This Statement was issued on September 15, 1986 and shall be effective for financial statements with fiscal years ending on or after December 31, 1986.

The provisions of this Statement need not be applied to immaterial items.