

IAS 10 – Events after the Reporting Period

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This article provides information and application in relation to IAS 10 – Events after the reporting period.

Events after the reporting period are those events, favourable and unfavourable that occurs between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified i.e.

- 1. Events that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- 2. Events that are indicative of conditions that arose after the reporting period (non adjusting events after the reporting period).

Authorised for issue is generally where the directors of the company have reviewed the financial statements and then instruct that the financial statements can be issued to shareholders and other interested parties. Events after the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

An entity shall not adjust the amounts recognised in its financial statements to reflect non adjusting events after the reporting period.

Examples of Adjusting and Non-Adjusting Events

Example 1

Ding Dong Limited's (Ding Dong) financial year ends on 31 December. On 20 December 2013, Ding Dong was involved in a court case with a customer who sued the company for delivering products where there was a dispute over the exact ingredients included in the products manufactured by Ding Dong. These products were delivered to the customer in October 2013. The details of the case were heard by 22 December but the judge decided to reserve her judgment until 8 January 2014. On 8 January 2014, the judge ruled in favour of the customer, awarding it damages of €100,000.

Solution Example 1

Per paragraph 9 (a) of IAS 10, this is an adjusting event. The event took place during the reporting period and the settlement after the reporting period of the court case confirms that Ding Dong Limited had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or recognises a new provision.

Example 2

Ding Dong Limited has an investment worth €1,000,000 in its financial statements at 31 December 2013. Due to the continuing recession, the investment reduced in value to €900,000 by 15 January 2014.

Solution Example 2

Per paragraph 11 of IAS 10, this is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure

Example 3

On 8 January 2014, one of the accountants left Ding Dong suddenly. On further investigation, the company realised that this employee had been paying himself money from the bank account in relation to false rental invoices. The amount of the overpayment was found to be \in 86,000. With the help of the police, the accountant was tracked down and repaid all of the money on 18 January 2014.

Solution Example 3

Per paragraph 9 (e) of IAS 10, this is an adjusting event. The discovery of fraud that shows that the financial statements are incorrect has to be adjusted in the financial statements for the relevant reporting period i.e. year ended 31st December 2013. At the year-end, rental expenses are overstated and the bank balance is understated and these need to be corrected to accurately reflect the correct balances at the year-end.

Example 4

On 10 January 2014, Ding Dong Limited sold some inventory for €80,000. This inventory had been included in the year-end inventory count at cost of €100,000.

Solution Example 4

Per paragraph 9 (b ii) of IAS 10, this is an adjusting event. The sale of inventories after the reporting period can give evidence about the net realisable value of the inventory at the end of the reporting period. The inventory's net realisable value in early January 2014 is \in 80,000 whereas the cost of the inventories at 31 December 2013 was \in 100,000. Using the IAS 2 Inventories rule that inventory is to be valued at the lower of cost and net realisable value, the inventory at the year-end should be included at \in 80,000 in the financial statements and therefore, the financial statements have to be adjusted to reflect this change.

Example 5

Ding Dong Limited sold a truck on 31 December 2013 for $\leq 20,000$. This truck had been purchased on 1 January 2008. On 31 December a non-refundable deposit of $\leq 15,000$ was paid towards a new truck and a cheque was posted with the balancing payment of $\leq 50,000$. This cheque was not received and cashed by the seller until 4 January 2014.

Solution Example 5

Per paragraph 9 (c) of IAS 10, the determination after the statement of financial position date of the cost of assets purchased or the proceeds from assets sold before the end of the reporting period is an adjusting event after the reporting period. The adjusting event needs to be recognised in its financial statements for the year ended 31 December 2013. Therefore, the cheque cashed after the year end should be included in the financial statements for the year ended 31 December 2013 i.e.

Debit	Property Plant and Equipment	65,000	
Credit	Bank		65,000

Example 6

A trade receivable which owed Ding Dong Limited €5,000 at the year end was declared bankrupt on 5 January 2014. Ding Dong Limited has no prospect of recovering any money from this bankrupt customer.

Solution Example 6

Per paragraph 9b) i) of IAS 10, the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable. The entity needs to adjust the carrying amount of the trade receivables. Therefore, it is an adjusting event after the reporting period that needs to be reflected in the financial statements for the year-ended 31 December 2013.

Dividends

If an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with IAS 1 *Presentation of Financial Statements*.

Example 7

A dividend of €40,000, in relation to the financial year-ending 31 December 2013, was declared in January 2014 and paid on 12 January 2014. The accountant included the dividend in the financial statements for the year-ended 31 December 2013.

Solution Example 7

Per paragraph 12 of IAS 10 if an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. Therefore, the accounting treatment is incorrect and the accountant should reverse the transaction and include the dividend in the financial statements for the year-ended 31 December 2014.

Going Concern

An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting

IAS 1 specifies required disclosures if:

- 1. The financial statements are not prepared on a going concern basis; or
- 2. Management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

Disclosure

An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information. An example of this is when evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognise or change a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity updates its disclosures about the contingent liability in the light of that evidence.

Disclosure: Non-Adjusting Events

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- 1. The nature of the event; and
- 2. An estimate of its financial effect, or a statement that such an estimate cannot be made

Typical examples of material non-adjusting events after the reporting period that disclosure would be expected are;

- 1. A major combination of entities or disposing of a major subsidiary;
- 2. A plan to discontinue an operation or a major restructuring of an operation;
- 3. Major purchase of assets or the destruction of a major asset by fire/storm
- 4. Major share transactions;
- 5. Abnormally large changes in assets prices or foreign exchange rates;
- 6. Changes in tax rates or tax laws that have a major impact on an operation from a tax point of view;
- 7. Entering into significant commitments or contingent liabilities;
- 8. Commencing major litigation arising out of events that occurred solely after the reporting period