IAS 10 Events After the Reporting Period - A Closer Look

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IAS 10,
Events After the Reporting Period – A Closer Look

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International Accounting Standard (IAS) 10, *Events after the Reporting Period,* prescribes the accounting treatment applicable to events that occur after the reporting date. In July 1977, the International Accounting Standards Committee (IASC) issued the Exposure Draft E10, *Contingencies and Events Occurring After the Balance Sheet Date*. In October 1978, the IASC issued IAS 10, *Contingencies and Events Occurring After the Balance Sheet Date,* effective January 1, 1980. In November 1998, the IASC issued Exposure Draft E63, *Events After the Balance Sheet Date.* IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, issued in September 1998, replaced the sections of IAS 10 dealing with contingencies. The IASC issued revised IAS 10, *Events After the Balance Sheet Date* in May 1999, which supersedes those portions of IAS 10 (1978) dealing with events after the balance sheet date. The effective date was fixed as January 1, 2000. On December 18, 2003, the International Accounting Standards Board (IASB) issued the revised version of IAS 10. The effective date was fixed as January 1, 2005. On September 6, 2007, the IASB changed the title of IAS 10 from to *Events after the Reporting Period* as a consequential amendment resulting from revisions to IAS 1, *Presentation of Financial Statements.*

Objective

The objective of IAS 10 is to prescribe:

(a) when an entity should adjust its financial statements for events after the reporting period; and

(b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

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Scope and Application

IAS 10 shall be applied in the accounting for, and disclosure of, events after the reporting period.

Key Definitions

Event after the reporting period: An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

Events after the reporting period explained

Events after the reporting period and before financial statements are issued can have important effects on the financial statements. For example, the bankruptcy of a major customer would normally be evidence that the trade receivable should be written off or an allowance made as at the reporting period.

There is another type of event after the reporting period — one that does not affect the position at the reporting period, but which still needs disclosure in some way to prevent users being misled. An example of such an event might be a material fall in the market value of investments.

Recognition and Measurement

IAS 10 requires events after reporting date to be classified into two event types:
(a) those that provide evidence of conditions that existed at the reporting period (adjusting events after the reporting period); and
(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

IAS 10 does, however, provide additional guidance as to the extent of the post reporting period. It should finish at the date of authorisation.

The standard provides two examples to illustrate the appropriate date:

Example 1

Completion of draft financial statements	28 February 20X2
Board reviews and authorises for issue	*18 March 20X2
Profit announcement	19 March 20X2
Available to shareholders	1 April 20X2
AGM	15 May 20X2
Filed with regulatory body	17 May 20X2

**Correct date of authorisation for issue*

Example 2

Management reviews and authorises for issue	*18 March 20X2
Supervisory Board approves	26 March 20X2
Available to shareholders	1 April 20X2
AGM	15 May 20X2
Filed with regulatory body	17 May 20X2

**Correct date of authorisation for issue*

Adjusting Events After the Reporting Period

A reporting entity should adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. The examples provided include the following:

* the resolution of a court case, as the result of which a provision has to be recognised instead of the disclosure by note of a contingent liability;
* the receipt of information after the reporting period indicating that an asset was impaired at the reporting period e.g. the bankruptcy of a major customer, the sale of inventories at prices suggesting the need to reduce the balance sheet figure to the net value actually realized;
* the determination, after the reporting period, of the cost of assets purchased or proceeds sold before the reporting period;
* the determination after the reporting period of the amount of profit/bonus payments provided there was a legal or constructive obligation at the reporting period; and,
* the discovery of fraud or error.

Non-adjusting Events After the Reporting Period

An entity should not adjust the amounts recognized in the financial statements to reflect non-adjusting events after the reporting period. Non-adjusting events do not, by definition, require an adjustment to the financial statements, but if they are of such importance that non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions, the enterprise should disclose by note:

— the nature of the event;

— an estimate of its financial effect, or a statement that such an estimate cannot be made.

Examples of such events given in IAS 10 are:

(a) decline in market value of investments;
(b) announcement of a plan to discontinue an operation or entering into binding agreements to sell.
(c) major purchases and disposals of assets;
(d) expropriation of major assets by government;
(e) destruction of a major production plant by fire etc;
(f) a major business combination/disposal after the reporting period;
(g) sale of a major subsidiary;
(h) major dealings in the company's ordinary shares;
(i) abnormally large changes in asset prices or foreign exchange rates;
(j) changes in tax rates with a significant effect on current and deferred tax assets;
(k) entering into significant commitments or contingent liabilities;
(l) commencing major litigation arising solely out of events that have occurred after the reporting period
(m) The announcement or commencing of a major restructuring.

Prescribed Accounting Treatment

Adjusting Events
IAS 10 requires that an entity takes one or more of the following steps to reflect the effect of these events (adjusting events after the reporting period) in the financial statement:
•adjust the amounts recognised in its financial statements
• recognise items that were not previously recognised
• update the disclosures in its financial report
Adjust financial statements for adjusting events – events after the reporting period that provide further evidence of conditions that existed at the end of the reporting period, including events that indicate that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting Events
IAS 10 prohibits adjustments to the amounts recognised in the financial statements or updates to the disclosures as at the reporting date. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken 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:
(a) the nature of the event; and
(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
It is also important to remember that non-adjusting events do not alter the amounts in the statement of financial position (the balance sheet) or statement of comprehensive income

(income statement), but if the event(s) is/are considered significant, then disclosure by way of note to the financial statements should be made.

Do not adjust for non-adjusting events – events or conditions that arose after the end of the reporting period.

Going Concern

IAS 10 also includes a requirement that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that it is no longer appropriate.

IAS 10 prohibits entities from preparing financial statements on a going concern basis when management determines after the reporting date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. Where the going concern assumption is considered inappropriate due to non-adjusting events, the entity shall present financial statements which are not prepared on a going concern basis. The fact shall be disclosed. IAS 1 outlines the required disclosure in such cases.

There was a provision in IAS 10 (1999) that the financial statements should be adjusted if events after the balance sheet date showed that a part of the enterprise was no longer a going concern. This requirement is withdrawn in revised IAS 10 on the grounds that under IAS 1, the going concern assumption applies to an enterprise as a whole.

Dividends

Dividends declared after the reporting date but before the date when the financial statements are authorised for issue, cannot be recognised as a liability in the financial statements as at reporting date because the dividends do not meet the criteria of a present obligation in IAS 37. That is a non-adjusting event. They are disclosed in the notes in accordance with IAS 1.

Prescribed Disclosures

Required disclosures include:

- the date when the financial statements were authorised for issue and who gave that authorisation
- updated disclosures for adjusting events
- the nature and an estimate of financial effect for material non-adjusting events. If the financial effect cannot be estimated, then a statement to that effect is required.

Date of Authorisation of Issue
Companies must disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise must disclose that fact.

Updating Disclosure about Conditions at the Reporting Period
A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions. An example might be a contingent liability becoming a provision, then the disclosures re contingent liabilities need to be updated (as per IAS 37).

Non-adjusting Events
Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. The required disclosure is (a) the nature of the event and (b) an estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made.

Comparison to Previous Standard

The main change is the removal of dividends declared after the reporting period, as adjusting events. Instead they should be disclosed in the notes. They do not meet the definition of a liability under IAS 37. Similarly dividends receivable from associates/subsidiaries, relating to a period prior to the reporting period, are now classified as non-adjusting. There is also no exceptional provision in IAS 10 to use prudence to reclassify a non-adjusting event as adjusting.

The requirements of revised IAS 10 are broadly the same as the previous version with the important exception of those for proposed dividends, which are now to be treated as in the USA. Under the IAS 10 (1999), there was an option to recognise them as liabilities, which has now gone.

Important areas of differences between revised IAS 10 with IAS (1999) are:
Dividends – recognition
The revised IAS 10 clarifies that dividends declared after reporting period do not meet criteria of present obligation, therefore no liability. It expands on "declared" – dividends appropriately authorised and no longer at discretion of entity.
In IAS 10 (1999), dividends proposed or declared after balance sheet date should not be recognised as a liability.

Dividends – disclosure
In revised IAS 10, dividends disclosed in notes in terms of IAS 1 but transfer within different categories of equity is STILL an option.
In IAS 10 (1999), disclosed the dividends proposed or declared after balance sheet date in terms of IAS 1 either:
- on face of balance sheet as separate component of equity OR
- in notes to financial statements

Constructive obligation - if entity has a past practice of paying dividends?
The revised IAS 10 clarifies that no liability arises even if the entity has a past practice of paying dividends, as this does not give rise to a constructive obligation.
In IAS 10 (1999) no guidance was given.

Conclusion

IAS 10 itself is a relatively straight forward standard to apply once you have correctly determined whether events which occur require adjusting within the financial statements or whether they require disclosure i.e. they don't require adjusting, merely emphasising within the financial statements to enable the accounts to give a 'true and fair' view.

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