IAS 10

Events After the Reporting Period

Prepared by

Sameh Zidan

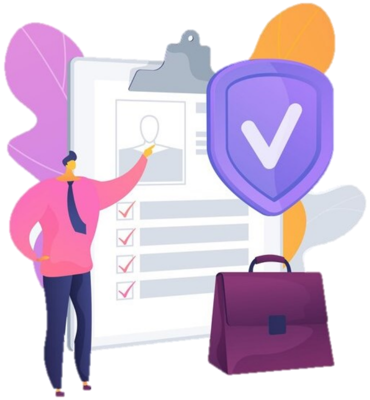
01014041166 - 01098184400

Objective, scope, and key definitions

1 When an entity should adjust its financial statements for events after the reporting period; and

2 The disclosures that an entity should give about:

- Date when the financial statements were authorised for issue and
- Events after the reporting period.



1/Jan/2023	31/Dec/2023	30/Apr/2024
Beginning of reporting period	End of reporting period	Date F/S authorized for issuance

Adjusted / Non-adjusted

event after the reporting period

An event, which could be favorable or unfavorable, that occurs between

1. the end of the reporting period 31/12/2022 and
2. the date that the financial statements are authorised for issue 31/3/2023.

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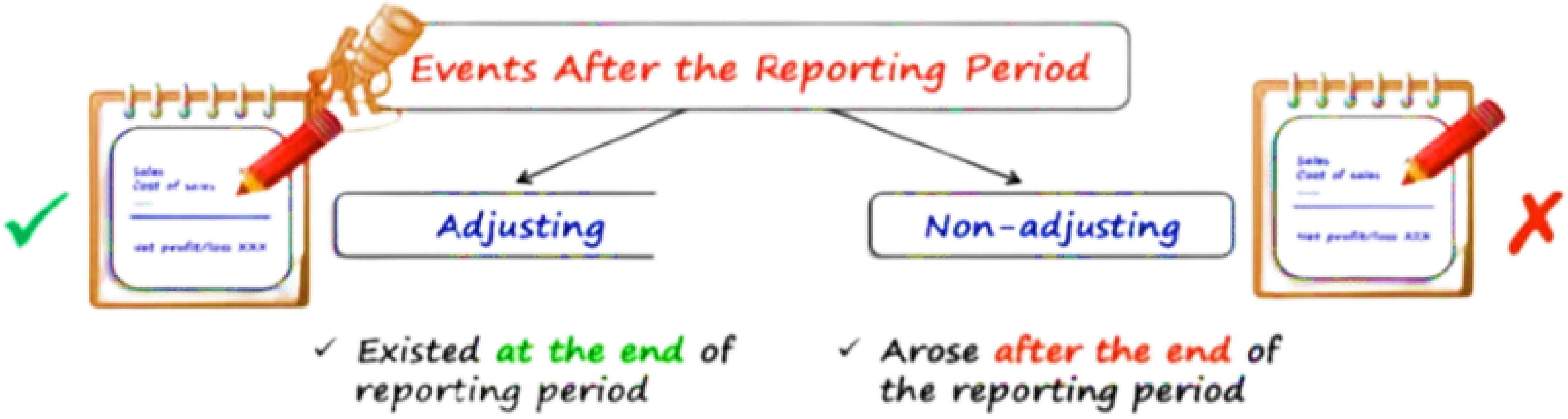
Adjusting event :

An event after the reporting period that provides **Additional 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**.



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Adjusting event

VS

Non-Adjusting event

Adjusting event

- A settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period;
- The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period;
- Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables.
- Sales of inventories after reporting date that give evidence about their net realisable value at reporting date
- Determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;
- Discovery of fraud or errors that show that the financial statements are incorrect.
- Events that indicate that the going concern assumption in relation to the whole or part of the entity is NOT appropriate.

Prepared by
Sameh Zidan
01014041166 - 01098184400

Adjusting event

VS

Non-Adjusting event

Non-Adjusting event

- Major business combinations / purchase of assets, classification of assets as held for sale in accordance with IFRS 5
- The destruction of a major production plant by a fire
- A change in tax rates or the enactment or announcement of tax laws
- Announcing a plan to discontinue an operation / commencing the implementation of a major restructuring.
- Entering into major commitments such as guarantees / Commencing major litigation arising for events after the reporting period.
- An abnormally large change in asset prices or foreign exchange rates / A decline in market value of investments
- A major ordinary share transaction or potential ordinary share transactions.

Prepared by
Sameh Zidan
01014041166 - 01098184400

Going concern issues

Going concern:

An entity shall NOT prepare its FS on a going concern basis IF management determines AFTER the reporting date either that

❶ "**it intends to liquidate the entity or to cease trading**", or that

❷ "it has no realistic alternative but to do so".

➢ ON BASIS BREAK UP BASIS – Convert noncurrent to current

Disclosures are required under IAS 1 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

Authorization of the financial statements

1. The date when the financial statements were authorised for issue.
2. Who gave that authorisation.
3. If owners or others have the power to amend the financial statements after issue.

Dividends

Dividends declared after the reporting period but before the financial statements are authorised for issue:

- are NOT recognised as a liability at the end of the reporting period.
- are DISCLOSED in the notes in accordance with IAS 1.

Other disclosures

For any information received about conditions that existed at reporting date, disclosure that relate to those conditions should be updated with the new information.

Disclose for each material category of non-adjusting events:

- The nature of the event and
- An estimate of its financial effect or the statement that such estimate cannot be made.

Prepared by
Sameh Zidan
01014041166 - 01098184400

Did the event occur between the
1. end of the reporting period and
2. the date on which the FS were authorized for issue?

NO → outside the scope of IAS 10

Yes → **Does** the event relate to a condition that existed as at the end of the reporting period?

Yes → This is an **ADJUSTING EVENT**, and the financial statements should be adjusted as appropriate.

NO → **Does** the event mean that management will have to Liquidate the entity or cease trading?

NO → This is a **NON-ADJUSTING EVENT** and the amounts recognized in the FS should not be changed. However, disclosure should generally be provided.

Yes → The financial statements should be prepared on a **BREAK-UP BASIS**.

Sameh Zidan

01014041166 - 01098184400

EFHAM IFRS
Sameh Zidan
International Financial Reporting Standards

Question (2- C):

Delta is an entity which prepares financial statements to 31 March each year. The financial statements for the year ended 31 March 2015 are to be authorized for issue on 30 June 2015. The following events are relevant to these financial statements:

Note 3 – Net realizable value:

On 31 March 2015, the inventories of Delta included a consignment of components which Delta had been supplying to a number of different customers for some years. The cost of the consignment was $10 million and based on retail prices at 31 March 2015, the expected selling price of the consignment would have been $12 million. On 15 May 2015, a competitor completed the development of an alternative component which seems likely to make Delta’s consignment obsolete. The directors of Delta estimate that the consignment (all still currently unsold) will now be sold for only $2 million. (4 marks)

Required:

Explain and show how the event should be reported in the financial statements of Delta for the year ended 31 March 2015.

Answer (2- C):

- The information about the obsolescence of the components is an event after the reporting date because it occurs after the reporting date but before the financial statements are authorized for issue.
- This event would be a non-adjusting event because it does not give information about conditions existing at the reporting date..
- At the reporting date, the inventory should be measured at the lower of cost ($10 million) and net realizable value ($12 million).
- The after-date obsolescence of the inventory and its financial implications for Delta should be disclosed in a note to the financial statements.

Exam Questions [DipIFR June **2016** – "**IAS 10** + **IAS 37**" -- Contingencies]

Question (2- B):

Delta is an entity which prepares financial statements to 31 March each year. Each year the financial statements are authorized for issue on 20 May. The following events are relevant to the year ended 31 March 2016:

Event 2 – Contingences:

On 1 August 2015, Delta supplied some products it had manufactured to customer C. The products were faulty and on 1 October 2015 C commenced legal action against Delta claiming damages in respect of losses due to the supply of the faulty products. Upon investigating the matter, Delta discovered that the products were faulty due to defective raw materials supplied to Delta by supplier S. Therefore on 1 December 2015, Delta commenced legal action against S claiming damages in respect of the supply of defective materials. Since that date Delta has consistently estimated that it is probable that both of the legal actions, the action of C against Delta and the action of Delta against S, will succeed.

On 1 October 2015, Delta estimated that the damages Delta would have to pay to C would be $5 million. This estimate was updated to $5·2 million as at 31 March 2016 and $5·25 million as at 15 May 2016. This case was eventually settled on 1 June 2016, when Delta was required to pay damages of $5·3 million to C.

On 1 December 2015, Delta estimated that they would receive damages of $3·5 million from S. This estimate was updated to $3·6 million as at 31 March 2016 and $3·7 million as at 15 May 2016. This case was eventually settled on 1 June 2016, when S was required to pay damages of $3·75 million to Delta. (6 marks)

Required:

Explain and show how the transactions would be reported in the financial statements of Delta for the year ended 31 March 2016.

Answer (2- B) – contingencies:

- The potential liability to pay damages to C needs to be recognized as a provision because the event giving rise to the potential liability (the supply of faulty products) arose prior to 31 March 2016, there is a probable transfer of economic benefits and a reliable estimate can be made of the amount of the probable transfer.

- The amount recognized should be the best estimate of the amount required to settle the obligation at the reporting date. In this case, this estimate is the one made on 15 May – just before the financial statements are authorized for issue. Therefore a provision of $5·25 million should be recognized as a current liability. There should also be a charge of $5·25 million to profit or loss.

- The potential amount receivable from S is a contingent asset as it arose from an event prior to the year end but at the date the financial statements are authorized for issue, the ultimate outcome is uncertain. Contingent assets are NOT recognized as assets in the statement of financial position. Their existence and estimated financial effect is disclosed where the future receipt of economic benefits is probable.

Prepared by
Sameh Zidan
01014041166 - 01098184400

Year	Month	Question	Note
2015	June	2	C
2016	June	2	B
2020	Dec	4	2
2022	Dec	4	2
2024	June	3	2

Prepared by
Sameh Zidan
01014041166 - 01098184400