

SPECIFIC ITEMS

SECTION 3820

subsequent events

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PURPOSE AND SCOPE

.01 This Section establishes recognition and disclosure standards for events subsequent to the financial statement date.

.02 Financial statements are prepared to reflect the financial position at a particular date and the operating results and cash flows for a period ended on that date. However, events occurring after the financial statement date may indicate a need to adjust items or to make specific disclosures in those statements. Therefore, in preparing financial statements, the implications and financial effects of subsequent events would be considered.

.03 The period during which subsequent events are considered will depend on the management structure and procedures followed in completing the financial statements. The appropriate cut-off point for subsequent events is a matter of judgment taking into account the particular circumstances and reporting requirements.

.04 In general, there are two types of subsequent events:

- (a) those that provide further evidence of conditions that existed at the financial statement date; and
- (b) those that are indicative of conditions that arose subsequent to the financial statement date.

The extent to which, and the manner in which, the effect of a subsequent event is reflected in the financial statements will depend on its type.

.05 The effect of subsequent events may be so pervasive, however, that the viability of the whole or a part of the business of the enterprise is brought into question. A rapid deterioration in operating results or financial position after the date of the financial statements may indicate a need to consider whether it is proper to use the going concern assumption.

ACCOUNTING TREATMENT

.06 Subsequent events may provide additional information relating to items included in the financial statements and may reveal conditions existing at the financial statement date that affect the estimates involved in the preparation of financial statements. All such information that becomes available prior to completion of the financial statements would be used in evaluating the estimates made and the financial statements would be adjusted where necessary. For example, the institution of bankruptcy proceedings against a debtor, subsequent to the date of the financial statements, may be indicative of the underlying financial situation of the debtor at the date of the financial statements. If the provision for that debt were inadequate, adjustment of the financial statements would be required.

.07 *Financial statements shall be adjusted when events occurring between the date of the financial statements and the date of their completion provide additional evidence relating to conditions that existed at the date of the financial statements.*

.07A Financial statements are complete when:

- (a) a complete set of financial statements, including all required note disclosures, has been prepared (see GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, paragraphs 1400.10-.11);
- (b) all final adjusting journal entries have been reflected in the financial statements (for example, adjustments for income taxes and bonuses);
- (c) no changes to the financial statements are planned or expected; and
- (d) the financial statements meeting the above requirements have been approved in accordance with the entity's process to finalize its financial statements.

.08 Adjustment of the financial statements for subsequent events is not appropriate if such events do not relate to conditions existing at the financial statement date. To reflect the effect of such events would not be consistent with the concept that a balance sheet represents the financial position of an enterprise at the financial statement date.

.09 *Financial statements shall not be adjusted for those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements.*

DISCLOSURE

- .10 *Disclosure shall be made of those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:*
 - (a) *cause significant changes to assets or liabilities in the subsequent period; or*
 - (b) *will, or may, have a significant effect on the future operations of the enterprise.*
- .11 *At a minimum, the disclosure shall include:*
 - (a) *a description of the nature of the event; and*
 - (b) *an estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made.*
- .12 Some events occurring after the financial statement date may have a significant effect, in a subsequent period, on the assets and liabilities or future operations of an enterprise and disclosure could be important to users in their interpretation of the financial statements.
- .13 Examples of subsequent events that would not require adjustment of the financial statements but, if significant in their effect, would require disclosure in notes to the financial statements include:
 - (a) an event such as a fire or flood that results in a loss;
 - (b) a decline in the market value of investments;
 - (c) purchase of a business;
 - (d) commencement of litigation when the cause of action arose subsequent to the date of the financial statements;
 - (e) changes in foreign currency exchange rates; and
 - (f) the issue of capital stock or long-term debt.

EFFECTIVE DATE

- .14 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

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