LKAS 10: Events after the Reporting Period

Introduction

This Standard should be applied in the accounting for, and disclosure of, events after the reporting period. The objective of this Standard 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 authorized for issue and about events after the reporting period.

This Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization.

Example:
The management of an entity completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorizes them for issue. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorized for issue on 18 March 20X2 (date of board authorization for issue). So, events after the reporting period of this example are events that occurred between 31 December 20X1 and 18 March 20X2.

Events after the reporting period are divided into two main types.

1) Adjusting events
2) Non-adjusting events

1. Adjusting Events after the Reporting Period

Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period). **Financial statements should be adjusted to reflect the impact of the adjusting events.**

The following are a few examples for adjusting events.

i. the **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 entity adjusts any previously recognized provision related to this court case in accordance with LKAS 37 Provisions, Contingent Liabilities and Contingent Assets or recognizes a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with LKAS 37.

ii. **the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period**, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted.

For example:

- the **bankruptcy of a customer** that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period (bad debts)

- the sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period (write off of inventory).

iii. the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period. Example, the determination of selling price of asset which was sold prior to the reporting period.

iv. The determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date.

v. the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting Events after the Reporting Period

Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period). **Financial statements should not be adjusted in the financial statements.**

If non-adjusting events after the reporting period are material, 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.

The following are a few examples for non-adjusting events.

- The decline the market value of investments (in this case, the decline in the market value relates to circumstances that arose after the reporting period and not to the condition of the investments at the reporting date).

- a major business combination after the reporting period or disposing of a major subsidiary.

- announcing a plan to discontinue an operation.

- major purchases of assets, classification of assets as held for sale, other disposals of assets, or expropriation of major assets by government. Example, the determination of selling price of asset which was sold after the reporting period.

- the destruction of a major production plant by a fire after the reporting period. For example, the destruction of a factory building by a fire after the reporting date.

- announcing, or commencing the implementation of, a major restructuring.

- major ordinary share transactions and potential ordinary share transactions after the reporting period. For example, a public share issue after the reporting period.

- abnormally large changes after the reporting period in asset prices or foreign exchange rates.

- changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current tax assets and liabilities.

- entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees.

- commencing major litigation arising solely out of events that occurred after the reporting period. For example, settlement of a court case that was filled prior to the reporting period.

Dividends
If an entity declares dividends (proposed dividends) to holders of equity instruments after the reporting period, the entity should not recognize those dividends as a liability at the end of the reporting period as a liability at the end of the reporting period because no obligation exists at that time. However, a disclosure should be made in Notes to the financial statements in this regard.

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.

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 recognized within the original basis of accounting.