LKAS 10
Events after the Reporting Period

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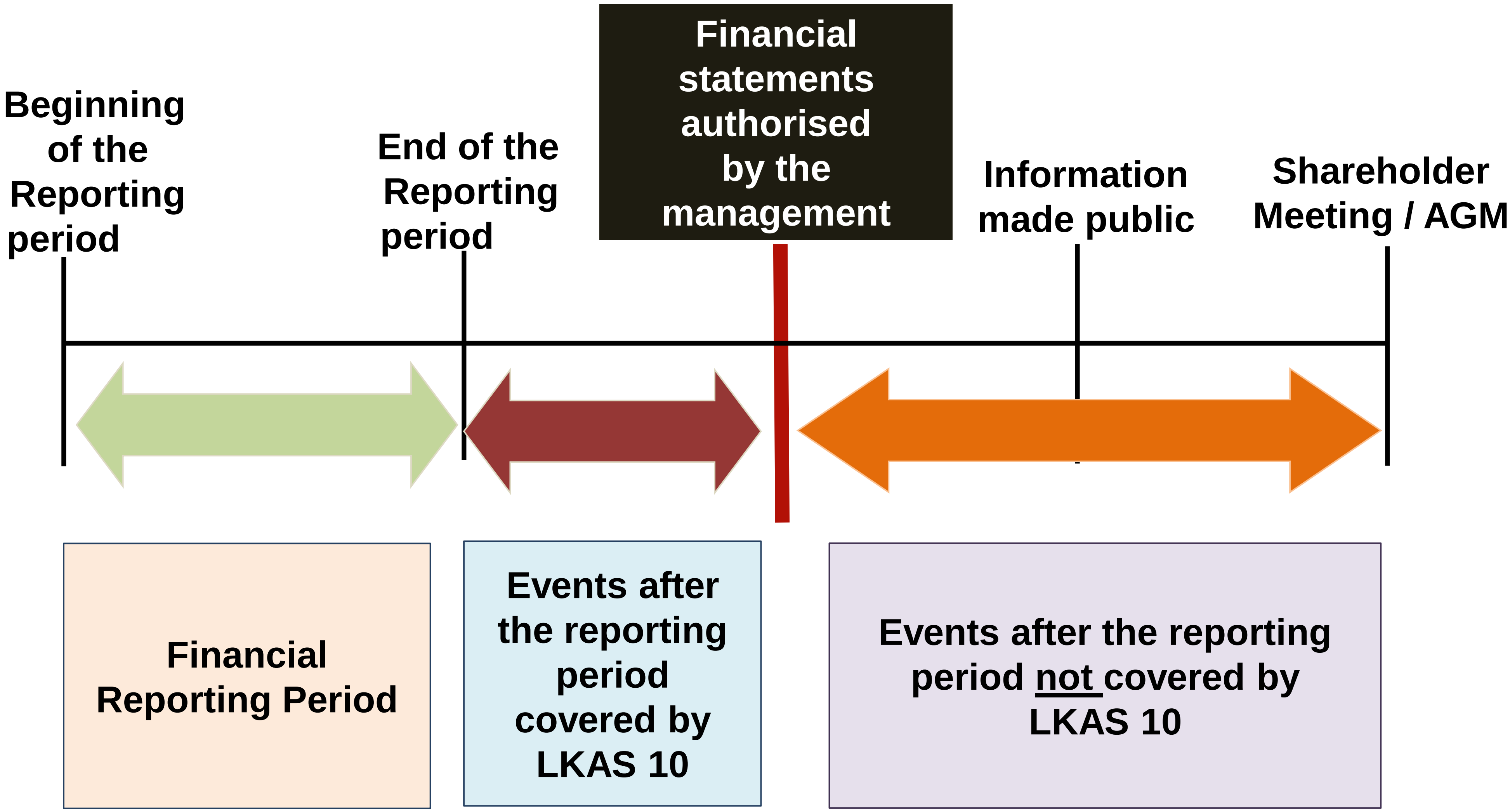
Overview

- Scope
- Events after the reporting period
- Adjusting and non-adjusting events

Scope

- Events after the reporting period
  - Accounting
  - Disclosures

Events after the reporting period to consider



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Adjusting and non-adjusting events

Events

Adjusting

Provide evidence of conditions which existed **<u>at</u>** the end of the reporting period

Adjust

Non-adjusting

Indicative of conditions that arose **<u>after</u>** end of the reporting period

Disclose only if material

Examples for adjusting and non-adjusting events

Adjusting	Non-adjusting
- Settlement of a court case - May confirm a present obligation at the end of the reporting period - Bankruptcy of a customer - Usually confirms that a loss already existed at the end of the reporting period - Discovery of fraud - The Sale of inventories after the reporting period - may give evidence about their Net Realizable Value at the end of the reporting period	- Destruction of a plant by fire - Decline in market value of investments between the end of the reporting period and the date when the financial statements are authorized to issue - A major business combination - Announcing a major restructuring

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Examples of adjusting and non-adjusting events cont…

In the financial statements for the year ended 31 December 2018, Sun Ltd had created a provision of Rs.600,000 as damages that will need to be paid on a pending legal case as per the advice given by the Company's legal council.

The court decided the case against Sun Ltd on 10 February 2019, requiring the Company to pay Rs.1,000,000 as damages. The financial statements are authorized for issue on 25 February 2019.

- This is an adjusting event
- The Company should adjust the provision upwards by Rs.400,000 to present a total liability of Rs.1,000,000 for damages since the judgment has confirmed the amount and existence of a present obligation as at 31 December 2018,

Examples of adjusting and non-adjusting events contd…

Sac Ltd manufactures plastic bags and sells them to retail outlets. In early November 2017, Sac Ltd sold plastic bags for Rs.500,000 to Nara Ltd. The payment for the goods was still pending as at 31 December 2017.

Sac Ltd's draft financial statements for the year ended 31 December 2017 include a debtor balance of Rs.500,000 from Nara Ltd.

In January 2018, it was discovered that Nara Ltd has gone into bankruptcy and will be unable to pay their Rs.500,000 debts. The financial statements are authorized for issue on 18 February 2018.

- This is an adjusting event
- Nara Ltd went into bankruptcy in January, and therefore Nara Ltd was in financial trouble before the year end
- Nara's inability to pay Sac Ltd's debts was a condition that existed at the end of the reporting period
- Sac Ltd must amend the financial statements to take into account the collapse of Nara Ltd
- Sac Ltd must write off the Rs.500,000 debtor, expensing this to the profit and loss account of the FY 2017

Examples of adjusting and non-adjusting events cont…

Mountain PLC made an investment in an equity financial asset during the year ended 31 March 2018.

The value of the investments remained the same during the year ended 31 March 2018. However, there was a significant decline in the value of the investments after the end of the financial year due to significant changes in market conditions.

The investments had not recovered their value by the date on which the financial statements were authorised for issue.

- This is a non-adjusting event after the reporting period
- The decrease in value of the investment is attributable to factors which have arisen after the reporting date
- The figure reported in the Statement of Financial Position for investments as at 31 March 2018 should not be adjusted
- If the decrease in value is material it should be disclosed as a note to the financial statements

Examples of adjusting and non-adjusting events cont…

An entity gives warranties at the time of sale to purchasers of its products. On 31 December 2018, an entity assessed its warranty obligation to be Rs.100,000. Immediately before the 31 December 2018 annual financial statements were authorised for issue, the entity discovered a latent defect in one of its lines of products (ie a defect that was not discoverable by reasonable or customary inspection). As a result of the discovery, the entity reassessed its estimate of its warranty obligation at 31 December 2018 at Rs150,000.

- The event—discovery of the latent defect—is an adjusting event after the end of the reporting period.
- The condition—the latent defect—existed in products sold before 31 December 2018.

Examples of adjusting and non-adjusting events cont…

The facts are the same as in previous example. However, the latent defect was discovered on 31 March 2019, after the 31 December 2018 annual financial statements were authorised for issue. In April 2019 the entity paid Rs.150,000 to transfer the obligation to an independent third party.

The latent defect is not an event after the end of the reporting period, because it was discovered after the 2018 financial statements were authorised for issue. The Rs. 100,000 obligation for the warranty provision was measured and reported in good faith in the entity's 31 December 2018 annual financial statements. The additional Rs. 50,000 not provided for at 31 December 2018 is a change in accounting estimate. It is recognised as an expense in determining the profit or loss for the three-month period ended 31 March 2019. Thus, it will be included in profit or loss in the 2019 financial statements.

Examples of adjusting and non-adjusting events cont…

An entity's financial statements for the year ended 31 December 2018 were authorised for issue on 28 February 2019. On 20 February 2019. A fire destroyed one of the entity's paper manufacturing plants, which had a carrying amount of Rs. 2,000,000 in the entity's statement of financial position at 31 December 2018.
The entity does not have insurance against fire damage. The destroyed plant has no value. It will be replaced at an estimated cost of Rs. 3,000,000.

The entity remains a going concern.
Note xx: Events after the end of the reporting period
On 20 February 2019, one of the entity's uninsured paper manufacturing plants was destroyed by fire, resulting in plant with a carrying amount of Rs. 2,000,000 at 31 December 2018 being impaired to zero during 2019. The plant will be replaced at an estimated cost of Rs. 3,000,000.

Examples of adjusting and non-adjusting events cont…

On 15 May 2019 an entity's financial statements for the year ended 31 March 2018 were authorised for issue. The entity has three major product lines: A, B and C. On 1 May 2019 the entity announced that it intends closing its Product A operations. The product A operations did not meet the criteria to be classified as held for sale at 31 March 2018.

The announcement to discontinue the Product A operations is a non-adjusting event. The condition did not exist at 31 March 2018. This non-adjusting event must be disclosed in its 31 March 2018 financial statements.

Note xx: Events after the end of the reporting period

On 1 May 2019 the entity announced the closure of its Product A operations in Area A. During the year ended 31 March 2018, Product A accounted for operating profits of Rs. 20,000. At 31 March 2018 the carrying amount of the net assets related to Product A operations was Rs. 0.5 million.

Special issues – dividends

Dividends **declared after the reporting period** but **before the financial statements are authorized for issue** should **not be recognised as a liability** at the balance sheet date but should be **disclosed** in notes

Example Disclosure – 2017/18 Annual Report of Aitken Spence PLC

14 Dividends per share

	2017/2018 Rs.'000	2016/2017 Rs.'000
Interim ordinary dividend of Rs.1.25 per share for 2016/2017	-	507,495
Final ordinary dividend recommended Rs.2.00 per share (2016/2017 - Rs.0.50 per share)	811,992	202,998
	811,992	710,493

The Directors have recommended a final dividend payment of Rs.2.00 per share for the year ended 31st March 2018 to be approved at the Annual General Meeting on 29th June 2018.

In compliance with Sri Lanka Accounting Standard LKAS 10 - Events after the reporting period, the final dividend recommended is not recognised as a liability in the financial statements as at 31st March 2018.

46 Events occurring after the reporting date

The Board of Directors of the Company resolved to recommend a first and final ordinary dividend of Rs.2.00 per share for the year 2017/2018 to be approved at the Annual General Meeting. Details of the dividend is disclosed in note 14 to the financial statements.

There were no other material events that occurred after the reporting date that require adjustments to or disclosure in the financial statements.

Special issues – going concern

If the going concern **assumption becomes inappropriate** after the end of the reporting period, then the financial statements **should not be prepared on a going concern basis**.

Entity should use the break-up basis

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Disclosures

- Date of authorisation of financial statements for issue
- Who gave such authorisation
- If someone has the power to amend the financial statements after issuance
- Updating of disclosures about conditions existing at the end of the reporting period
- Material non-adjusting events:
  - Nature of the event
  - An estimate of its financial effect, or that such an estimate cannot be made

Test your knowledge……

Question 01

Events after the end of the reporting period are defined as:

(a) events, favourable and unfavourable, that occur between the end of the reporting period and the date of the entity’s next annual financial statements.

(b) events, favourable and unfavourable, that occur between the end of the reporting period and the date of the entity’s next interim (or annual) financial statements.

(c) events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Test your knowledge……

Question 02

Adjusting events are those that:

(a) provide evidence of conditions that existed at the end of the reporting period.

(b) are indicative of conditions that arose after the end of the reporting period.

(c) are favourable or unfavourable, and indicative of conditions that arose after the end of the reporting period.

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Test your knowledge……

Question 03

Which of the following is a non-adjusting event after the end of the reporting period that an entity should disclose in its financial statements for 2018?

In each case, the financial statements for 2018 have not yet been authorised for issue.

(a) An entity has a portfolio of shares with quoted market prices. These are measured at fair value through profit or loss. After the end of the reporting period, there was a substantial decline in the stock market. The fair value of the entity's portfolio of shares declined significantly.

(b) At 31 December 2018 one individual owned 100% of the entity's outstanding shares. In February 2019 that individual sold 80% of her holding to another party.

(c) All of the above.

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Test your knowledge……

Question 04

On 25 March 2019 the entity discovered that, as a result of a computational error, depreciation expense for the year ended 31 December 2018 is overstated by Rs. 290,000.

The entity’s 31 December 2018 financial statements were authorised for issue on 1 April 2019. The entity must:

(a) correct its 31 December 2018 financial statements before issuing them.

(b) reduce depreciation for the year ended 31 December 2019 by Rs. 290,000 (ie prospective allocation—a change in accounting estimate).

(c) restate (correct) the depreciation expense reported for the year ended 31 December 2018 in the comparative figures of its 2019 financial statements (ie retrospective restatement of a prior period error).

Test your knowledge……

Question 05

The information in Question 4 applies. However, in this question, the entity’s 31 December 2018 financial statements were authorised for issue on 1 March 2019. The entity must:

(a) reissue its 31 December 2018 financial statements with the correct depreciation expense.

(b) reduce depreciation for the year ended 31 December 2019 by Rs. 290,000 (ie prospective allocation—a change in accounting estimate).

(c) restate (correct) the depreciation expense reported for the year ended 31 December 2018 in the comparative figures of its 2019 financial statements (ie retrospective restatement of a prior period error).

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Thank you.