THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF SRI LANKA

Understand the events after the end of the reporting period (LKAS 10)

Tishan Subasinghe
Partner
BDO Partners

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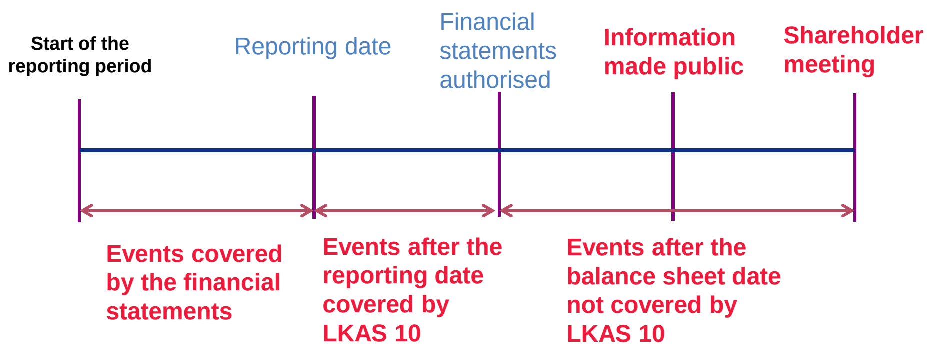
Scope and Objectives

Key issues and objectives

– It prescribes:

- when an entity should adjust its financial statements for events after the reporting period;
- 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.

Events after the Reporting Period

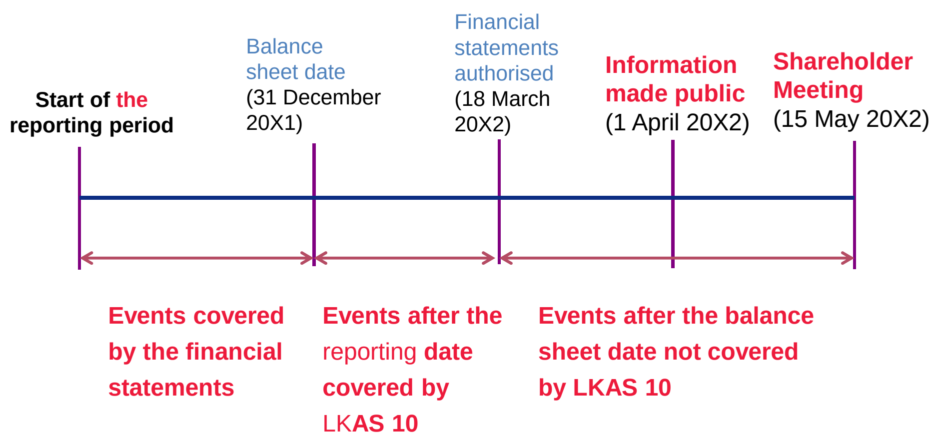


Those events, favourable and unfavourable, that occurs between the end of the reporting period and the date when the financial statements are authorised for issue.

Example - Events after the Reporting Period

- The management of an enterprise 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 enterprise announces its profit and selected other financial information on 19 March 20X2.
- The financial statements are made available to shareholders and others on 1 April 20X2.
- The annual meeting of shareholders approves the financial statements on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

Events After the Reporting Period



Events After the Reporting Period (Contd…)

Adjusting Events

Events that provide evidence of conditions that existed at the end of the reporting period

Non-Adjusting Events

Events that are indicative of conditions that arose after the reporting period

Examples of Adjusting Events

- 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
- Bankruptcy of a customer that occurs after the reporting period and confirms that a loss existed
- The Sale of inventories after the reporting period may give evidence about their Net Realizable value at the end of the reporting period.

Examples of Non Adjusting Events

Decline in market value of investments between the end of the reporting period and the date when the financial statements are authorized to issue.

Question 1 - Events after the Reporting Period

Mountain PLC acquired some non-current investments during the year ended 31st March 2014. The investments had maintained their value during the year ended 31st March 2014 but shortly after the end of the financial year, market conditions changed and there was a significant decline in the value of the investments. The investments had not recovered their value by the date on which the financial statements were authorised for issue.

Requirement :

How this item should be dealt with in the financial statements of Mountain PLC for the year ended 31st March 2014.

Solution 1 - Events after the Reporting Period

This is a non-adjusting event after the reporting period.

The diminution in value of the non-current investments is attributable to factors which have arisen after the date of the Statement of Financial Position.

The figure reported in the Statement of Financial Position for non-current investments as at 31st March 2014 should not be adjusted.

If the diminution in value is material it should be disclosed as a note to the financial statements.

Question 2 - Events after the Reporting Period

Included in IOM Productions PLC's inventory as at 31st March 2014 were 1,000 DVDs which had cost £10 each.

Shortly after 31st March 2014 it was discovered that these DVDs were leaking a poisonous chemical which meant that the DVDs could not be used and had to be scrapped.

It was agreed that the DVDs had probably started leaking some time before 31st March 2014.

Because of the leak it was necessary to clean and redecorate the store room. This cost 6,344. The work was started shortly before the financial statements were authorised for issue but was not paid for until after that date.

Requirement:

How this should be dealt with in the financial statements of IOM Productions PLC for the year ended 31st March 2014.

Solution 2 - Events after the Reporting Period

As far as having to scrap the digital DVDs tapes is concerned, this is an adjusting event after the reporting period.

The inventory was impaired as at the date of the Statement of Financial Position and should be written off in the financial statements for the year ended 31st March 2014.

Inventory as at 31st March 2014 should be written down by £10,000.

There was no liability for the cleaning and redecoration of the store room as at 31st March 2014. Also the amount may not be material. No adjustment to or disclosure in the financial statements for the year ended 31st March 2014 is necessary.

Dividends

– Dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date but should be disclosed in notes

– If dividends are declared (ie the dividends are appropriately authorized and no longer at the discretion of the entity) after the balance sheet date but before the financial statements are authorized for issue, the dividends are not recognized as a liability at the balance sheet date because they do not meet the criteria of present obligation in LKAS 37. Such dividends are disclosed in the notes (LKAS 1).

Going Concern

- If the going concern assumption becomes inappropriate after the reporting date, the financial statements should not be prepared on a going concern basis.

For example:

- Deterioration in operating results and financial position after the balance sheet date may indicate a need to consider whether the going concern assumption is still appropriate.

Disclosure

- ✓ An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation.
- ✓ If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.
- ✓ If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information (When evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period)

Disclosure (Contd…)

- ✓ In addition to considering whether it should recognise or change a provision under IAS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.
- ✓ 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

Illustration 1- Bankruptcy of a Customer

- Sac Ltd manufactures plastic bags and sells them to retail outlets. In early November, Sac Ltd sold plastic bags for €500,000 to Bagitup Ltd. At 31 December 2009, Bagitup had still not paid for these plastic bags. Sac Ltd's draft 31 December 2009 financial statements include a debtor balance for the €500,000.
- In January, Sac Ltd hear that Bagitup have gone into receivership and will be unable to pay their €500,000 debts.
- What kind of event is Bagitup's bankruptcy? How should Sac Ltd reflect this in its December 2009 financial statements?

Illustration 1 - answer

- This is an adjusting event.
- Bagitup Ltd went into receivership in January, and therefore Bagitup was in financial trouble before the year end. Bagitup's inability to pay Sac Ltd's debts was a condition that existed at the end of the end of the reporting period.
- Sac Ltd must amend the financial statements to take into account the collapse of Bagitup Ltd. Sac Ltd must write off the €500,000 debtor, expensing this to the profit and loss account.
- No disclosure is required as the event is fully reflected in the amounts recognised in the financial statements

Illustration 2 – Discontinuing Operations

- Funky Feet Ltd manufactures and sells shoes. The success of their White Stiletto brand in the 1980s led them to set up a stiletto factory in Essex, England. These operations thrived until the mid-1990s when a new style of high-heeled shoe became popular.

- It is now August 2009. Despite a short-lived resurgence in 2006, Funky Feet Ltd has announced that it intends to close its stiletto operations. Funky Feet's management have not yet authorised for issue the June 2009 audited financial statements. How should Funky Feet reflect the announcement to discontinue its stiletto operations in these financial statements?

Illustration 2 - Answer

- This is a non-adjusting event.
- Funky Feet announced its plan to discontinue the stiletto operations in August 2009. The condition here is the announced plan to close the stiletto operations. This condition did not exist at the end of the reporting period. As the stiletto operations are material to Funky Feet Ltd, this non-adjusting event must be disclosed in the June 2009 financial statements:
- *On 5 August 2009 the Company announced the closure of its stiletto operations in Essex, England. Management estimate that this would reduce operating profits for the year ended 30 June 2009 by £0.3 million and reduce the net assets at that date by £5 million*

Illustration 3 – Contingent Liability

- Chem-Ex Ltd distributes hazardous chemicals. Shortly after the December 2009 year end, there was a chemical spill on a customer site. One of Chem-Ex's lorries was transferring sulphuric acid into the customer's tank, when the connecting pipe cracked under the pressure. Sulphuric acid leaked everywhere!
- Clean-up costs are estimated at €1 million. However, it is not yet clear whether Chem-Ex or the customer will be liable for these costs.
- How should Chem-Ex treat this event in the December 2009 financial statements?

Illustration 3 – Answer

- This is a non-adjusting event.
- The condition here is the sulphuric acid spill. This chemical spill took place after the reporting period.
- The potential clean-up costs of €1 million are material to Chem-Ex. This contingent liability must therefore be disclosed in the December 2009 financial statements:
- *On 5 January 2009 there was a chemical spill at a customer site involving a Chem-Ex transport vehicle. The estimated clean-up costs are €1 million. This liability is contingent on the authorities finding Chem-Ex liable for these costs*

Illustration 4 – Authorization Shareholder Approval

- Silky Shirts Ltd manufactures replica football shirts. The financial director is finalising the financial statements for the year ended 31 December 2008. He looks at his diary:

  20.02.2009:draft financial statements completed

  13.03.2009: Board of Directors authorise financial statements for issue

  14.03.2009: Silky Shirts announce profits

  15.03.2009:financial statements sent to Shareholders for review

  1.04.2009: shareholders approve financial statements at annual meeting

  4.04.2009: financial statements filed with regulatory body

Illustration 4 - Answer

- The financial statements will be authorised for issue on 13 March 2009.
- The Shareholders' approval of Silky Shirts' financial statements is not the date that they will be authorised for issue. Financial statements can only be authorised for issue by management.
- The Financial Director of Silky Shirts must include the following disclosure in his draft financial statements:
- *The financial statements were authorised for issue by the Board of Directors on 13 March 2009.*

Illustration 5 - Approval of financial statements by the Supervisory Board

- Illumine Ltd manufactures light bulbs. The preparer of the 31 March 2009 financial statements is completing the authorised for issue disclosure using the information below:
  - 2 May 2009: draft financial statements completed
  - 5 May 2009: Board of Directors authorise them for issue to Supervisory Board
  - 15 May 2009: Supervisory Board approve financial statements
  - 20 May 2009: financial statements sent to Shareholders
  - 2 June 2009: shareholders approve financial statements at the annual meeting
- On what date will Illumine's 2009 financial statements be authorised for issue?

Illustration 5 – Answer

- The financial statements will be authorised on 5 May 2009.
- The Supervisory Board's approval of the financial statements is not the date that they are authorised for issue. Only management can authorise financial statements for issue.
- Management must disclose who authorised the financial statements for issue and when:
- *The financial statements were authorised for issue by the Board of Directors on 5 May 2009*

Illustration 6 Settlement of a Contingency

In the financial statements for the year ended 31 December 2011, LD Ltd has a created a provision for damages of $600,000 assuming a 60% probability that it will lose the legal case. The court decided that case against LD Ltd on 10 February 2012. The financial statements are due for issue on 25 February 2012.

Illustration 6 – Answer

The company should adjust the provision upward by $400,000 to present a $1 million liability for damages because the judgment has confirmed the amount and existence of present obligation as at 31 December 2011.

Illustration 7 - Indication of Existence of Impairment Loss

- IL Ltd. has an amount due from FD Ltd. amounting to $20 million as at 30 March 2012. The financial statements are expected to be issued on 14 May 2011. FD Ltd. declared bankruptcy and it is certain that IL Ltd will receive nothing because all the assets will be exhausted in satisfaction of government claims.

Illustration 7 – Answer

IL Ltd. should record an impairment loss of $20 million in the financial statements as at 31 December 2011 because the subsequent lack of recovery indicates that the company's receivable from FD Ltd was worth zero as at 30 March 2012.

Example Disclosure – LB Finance PLC

6.9 Events occurring after the reporting date

Subsequent to the reporting date, the Board of Directors of the Company recommended a first and final dividend of Rs. 10.00 per share for the year ended 31st March 2015. Details of the above dividend are disclosed in Note 4.10 to the Financial Statements.

The Board of Directors recommended to the shareholders, the increase in the number of ordinary shares of the Company in issue by way of a sub-division whereby the 69,257,142 ordinary shares currently in issue would be sub-divided into 2 ordinary shares each, thereby increasing the number of ordinary shares in issue to 138,514,284. The basic earnings per ordinary share (EPS) disclosed in the statement of comprehensive income and in Note 4.9 to these financial statements has not been adjusted where the sub-division of shares is yet to be approved at a general meeting of the shareholders.

No other circumstances have arisen subsequent to the reporting date which would require adjustment to or disclosure in the financial statements.

Example disclosure - Mercantile Investment & Finance PLC

50. EVENTS AFTER THE REPORTING DATE

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made into the Financial Statements where necessary.

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosures in the Financial Statements.

Example disclosure - Commercial Bank PLC

68. Events After the Reporting Date

No circumstances have arisen since the Reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below:

68.1 Final Dividend – 2015

The Board of Directors of the Bank have recommended the payment of a final dividend of Rs. 5/- per share which consist of a cash dividend of Rs. 3/- per share and the balance entitlement of Rs. 2/- per share that will be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2015.

This dividend is yet to be approved at the Annual General Meeting to be held on March 31, 2016. In accordance with the Sri Lanka Accounting Standard No.10 – 'Events after the Reporting Period', this proposed final dividend has not been recognised as a liability as at December 31, 2015. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

Compliance with Sections 56 and 57 of the Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 24, 2016 has been audited by KPMG.

Example Disclosure – Aitken Spence PLC

14 Dividends per share

	2015/2016 Rs.'000	2014/2015 Rs.'000
Final ordinary dividend recommended Rs.1.50 per share (2014/2015 - Rs.2.00 per share)	608,994	811,992
	608,994	811,992

The Directors have recommended a final dividend payment of Rs. 1.50 per share for the year ended 31st March 2016 to be approved at the Annual General Meeting on 30th June 2016.

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 2016.

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Example Disclosure – Hemas Holdings PLC

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NOTES TO THE FINANCIAL STATEMENTS

31 EVENTS AFTER THE REPORTING PERIOD

31.1 The Board of Directors of the Company has declared a final dividend of Rs. 1/- per share for the financial year ended 31 March 2016 as required by section 56(2) of the companies Act No 07 of 2007 , the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of the companies Act No. 07 of 2007, and has obtained a certificate from the Auditors, prior to declaring the final dividend which is to be paid on 12th July 2016.

In accordance with the Sri Lanka Accounting Standard (LKAS 10) - Events after the reporting date, the final dividend has not been recognized as a liability in the financial statements as at 31 March 2016.

31.2 Hemas Maritime (Pvt) Ltd was appointed as the Sri Lanka General Agent for Evergreen Marine Corporation, Taiwan effective 01 May 2016.

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Example Disclosure – UK Lloyds Banking Group

Lloyds Banking Group Annual Report and Accounts 2015

NOTE 56: EVENTS SINCE THE BALANCE SHEET DATE

In 2015, the Group participated in the UK-wide concurrent stress testing run by the Bank of England; the Enhanced Capital Notes (ECNs) in issue were not taken into account for the purposes of core capital in the PRA stress tests and the Group has determined that a Capital Disqualification Event (CDE), as defined in the conditions of the ECNs, has occurred. This determination was confirmed by a unanimous decision by the Court of Appeal on 10 December 2015 and on 29 January 2016 the Group announced the redemption of certain series of ECNs using the Regulatory Call Right. The Group also launched tender offers for the remaining series of ECNs on 29 January 2016 and has announced that, subsequent to completion of such offers, it will redeem those ECNs not validly tendered using the Regulatory Call Right. The offers and redemptions will be completed before the end of the first quarter, resulting in a net loss to the Group currently estimated to be approximately £700 million, principally comprising the write-off of the embedded equity conversion feature and premiums paid under the terms of the transaction.

The trustee of the ECNs has been granted leave by the Supreme Court to appeal the Court of Appeal decision. In the event that the Supreme Court were to determine that a CDE had not occurred, the Group would compensate fairly the holders of the ECNs whose securities are redeemed using the Regulatory Call Right for losses suffered as a result of early redemption.

Example Disclosure – Tesco PLC UK

Note 34 Events after the reporting period

On 12 April 2016 the Group announced the disposal of an 8.6% stake (on a fully diluted basis) in Lazada Group S.A. ('Lazada') to Alibaba Group Holding Limited ('Alibaba') for gross cash consideration of US$129m (£90m). The Group's investment in Lazada was recognised as an available-for-sale financial asset at 27 February 2016 with a total carrying value of £121m which represented a 19.6% stake on a fully diluted basis. Following the transaction, which also involved issue of new capital by Lazada, the Group retains an 8.3% (on a fully diluted basis) investment in Lazada. This investment is subject to a put/call option giving the Group the right to sell and Alibaba the right to buy at fair market value in the following 12 to 18 months.

THANK YOU