Chapter 1- Events after the Reporting Period (IAS 10)

Chapter educational objectives:
After studying this chapter, the student is expected to be familiar with the following:
-Identify the main objectives of IAS 10: “Events after the End of the Financial Period”.
-Explain the scope covered IAS 10: “Events after the End of the Financial Period”.
-Explain the difference between adjusting events after the balance sheet date and non-adjusting events.
-Recognition and measurement of adjusting events after the balance sheet date and non-adjusting events
-Explain how the standard addresses the issue of the entity’s continuity after the end of the reporting period.-
- statement of disclosures required by IAS10 ‘Events after the end of the financial period

1-Over view

IAS 10 Events after the reporting period requires entities to include adjusting events after the end of the reporting period in the financial statements.

Adjusting events are those that provide evidence of conditions existing at the end of the reporting period, while non-adjusting events are indicative of conditions arising after the reporting period should be disclosed in the notes.

The standard was issued in December 2003 and applies to accounting periods from January 1, 2005 onwards.

2-Objective

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 authorised for issue and about events after the reporting period.

The 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.

3-Scope

IAS 10 Events after the reporting period 10 provides guidance on accounting and disclosure after the balance sheet. To achieve the purpose of this standard, events are classified into "adjusting" and "non-adjusting" events.

The standard addresses the extent to which these events are included in the financial statements. The standard distinguishes between events that provide information about the entity's position at the balance sheet date and those that relate to the next financial period.

4-AUTHORIZATION DATE

The authorization date is the date when the financial statements could be considered legally authorized for issuance.

The general principles that need to be considered in determining the "authorization date" of the financial statements are :

• When an entity is required to issue its financial statements to shareholders for approval, the authorization date is the date of original issuance and not the date when these are approved by the shareholders; and

• When an entity is required to issue its financial statements to a supervisory board .Authorization date is when management authorizes them for issue to the supervisory board.

EX1-Authorized date

Facts-The preparation of the financial statements of Sab. Corp. for the accounting period ended December 31, 2022, was completed by the management on March 15, 2023. The draft financial statements were considered at the meeting of the board of directors held on March 20, 2023, on which date the board approved them and authorized them for issuance. The annual general meeting (AGM) was held on April 10, 2023, after allowing for printing and the requisite notice period mandated by the corporate statute. At the AGM the shareholders approved the financial statements. The approved financial statements were filed by the corporation with the Company Law Board (the statutory body of the country that regulates corporations) on April 20, 2023.

Required-Given these facts, what is the "authorization date" in terms of IAS 10?

Source-Abbas Ali Mirza and others (2008), **IFRS Practical Implementation Guide and Workbook ,** John Wiley & Sons, Inc,p62

5-Recognition and measurement

5.1-Adjusting events after the reporting period

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

Some examples of adjusting events can be stated :

a-The bankruptcy of a customer after the balance sheet date confirms the existence of a loss in receivables and the establishment must make an adjustment the amount.

b- the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.

c- 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[1]…ect

EX2- Adjusting events

Facts-During the year 2022, Sami Corp. was sued by a competitor for £15 million for infringement of a trademark. Based on the advice of the company's legal counsel, Sami Corp. accrued the sum of £10 million as a provision in its financial statements for the year ended December 31, 2022. Subsequent to the balance sheet date, on February 15, 2023, the Supreme Court decided in favor of the party alleging infringement of the trademark and ordered the defendant to pay the aggrieved party a sum of £14 million.

The financial statements were prepared by the company's management on January 31, 2023, and approved by the board on February 20, 2023

Required Should Sami Corp. adjust its financial statements for the year ended December 31, 2022?

[1]) www.iasplus.com/en/standards/ias/ias10

Source-Djemaa Haouam(2022), International Accounting Standards,Part1,OPU,Algeria,p 57

5.2- Non-adjusting events after the reporting period

An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.
Examples of non- adjusting events include[2] :

- Declaration of an equity dividend after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation.Thus, dividends are disclosed in the notes in accordance with IAS 1 Presentation of Financial Statements
- Decline in the market value of an investment after the balance sheet date
- Entering into major purchase commitments in the form of issuing guarantees after the balance sheet date
- Classification of assets as held for sale under IFRS 5 and the purchase, disposal, or expropriation of assets after the balance sheet date
- Commencing a lawsuit relating to events that occurred after the balance sheet date

. 6-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. Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. 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 recognised within the original basis of accounting.

IAS 1 specifies required disclosures if :

a- the financial statements are not prepared on a going concern basis; or

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[2]) Djemaa Haouam(2022**), International Accounting Standards**,Part1,OPU,Algeria,p 58

b- 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. The events or conditions requiring disclosure may arise after the reporting period.

7-DISCLOSURE REQUIREMENTS

IAS 10 requires an entity should disclose the following information to users:

1- The date when the financial statements were authorized for issue and who gave that authorization.

2-If information is received after the balance sheet date about conditions that existed at the balance sheet date, disclosures that relate to those conditions should be updated in the light of the new information.

3- Where nonadjusting events after the balance sheet date are of such significance that nondisclosure would affect the ability of the users of financial statements to make proper evaluations and decisions, disclosure should be made for each such significant category of nonadjusting event regarding the nature of the event and an estimate of its financial effector a statement that such an estimate cannot be made.