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IAS® Standard 10 Events after the Reporting Period

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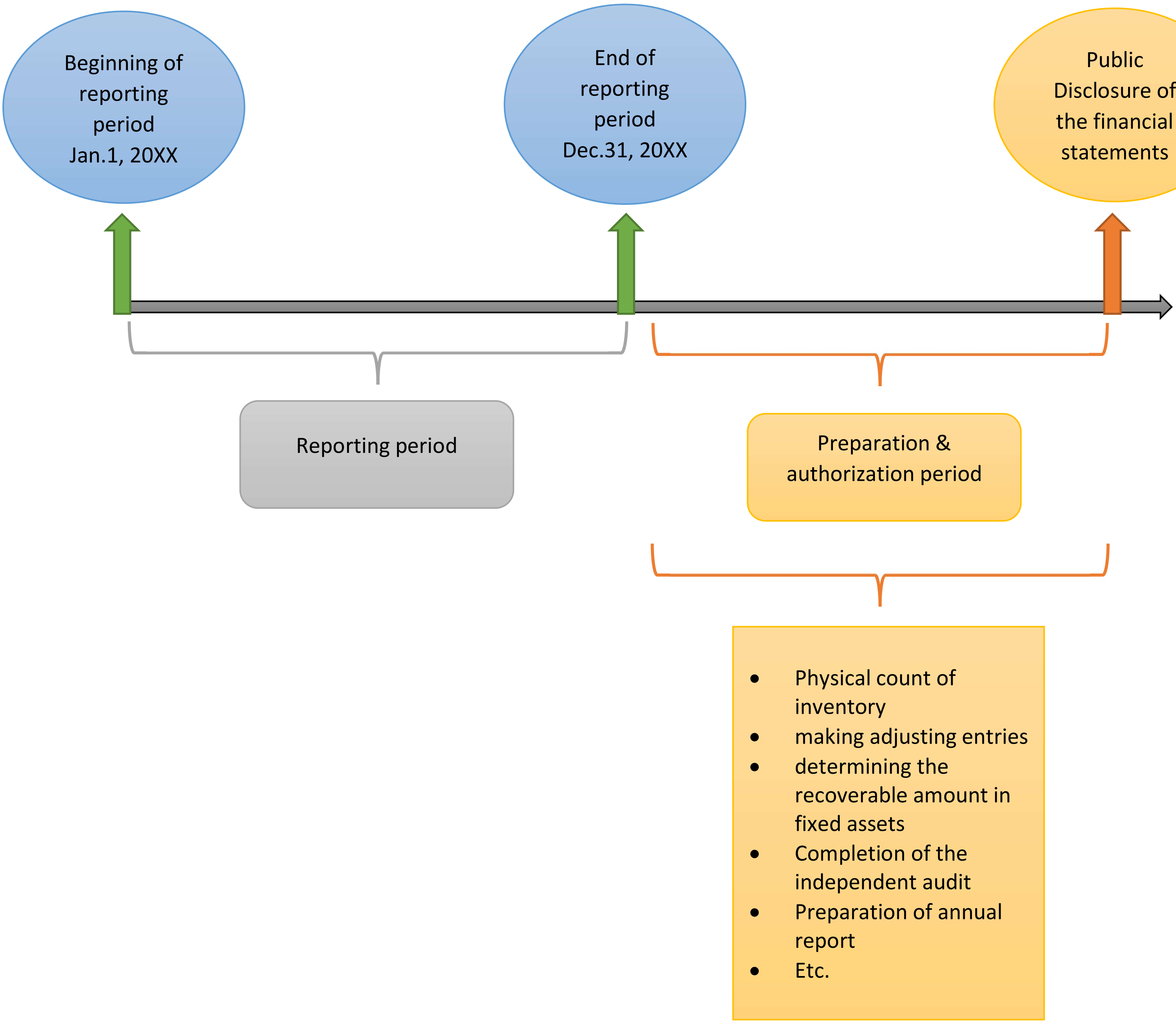
IAS® Standard 10 Events after the Reporting Period

SCOPE AND KEY DEFINITIONS

Purpose of IAS Standard 10 Events after the Reporting Period is to determine the length of the period of time an entity can make adjustments on events after the reporting period. Another purpose is to determine the authorization date of the financial statements and to determine the disclosures that should be made after the reporting period.

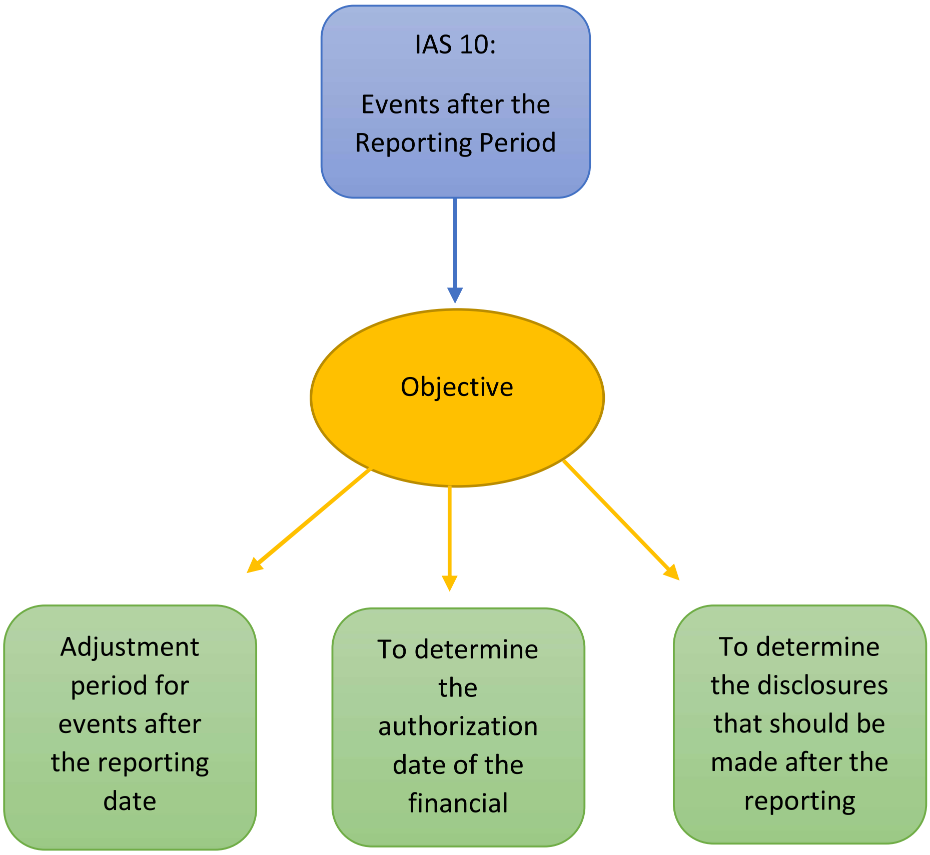
The preparation, authorization and public disclosure of the financial statements of the entities require a certain period of time. This is because after the end of the fiscal year, various activities must be performed in order to finalize the financial statements. Examples of these activities are physical count of inventory, making adjusting entries, and determining the recoverable amount in fixed assets. In addition to these, the independent audit process carried out by independent auditors must be completed and the annual report must be prepared. Figure 1 outlines the timeline of IAS 10.

Figure 1. Timeline of IAS 10



During the period between the end of the fiscal year and the preparation of the financial statements, significant transactions and various events that affect the financial position and performance of the entity may occur. It is important for financial statement users while making their decisions as to whether the events occurring during this period will affect the financial statements of the entity or whether an explanation will be made on this matter. Figure 2 details the scope of IAS 10.

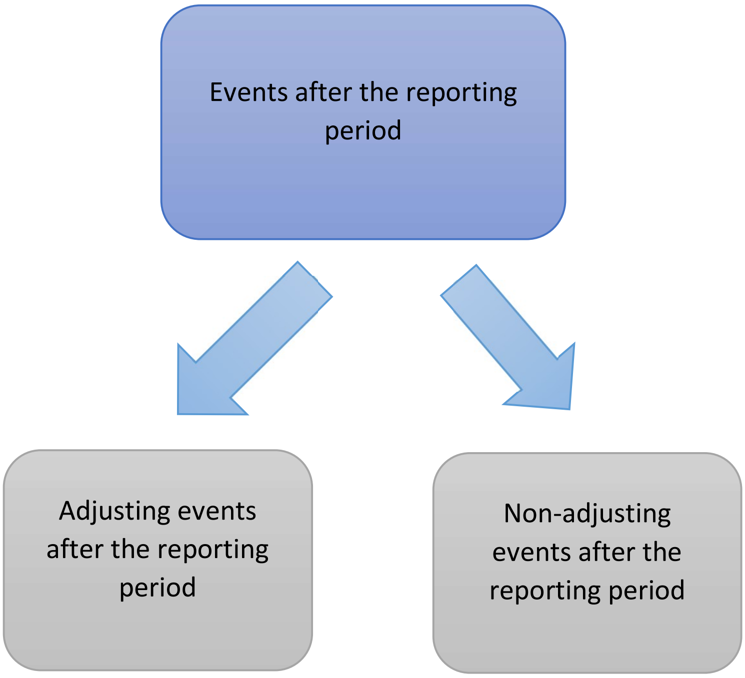
Figure 2. The Scope of IAS 10



This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

To understand this standard correctly, we must know a basic definition: events after the reporting period. Events after the reporting period are the favorable and unfavorable events that occur between the end of the reporting period and the date the financial statements are authorized for issue (IAS 10, 3). There may be two types of events after the reporting period; adjusting events after the reporting period and non-adjusting events after the reporting period. Figure 3 presents the types of events after the reporting period.

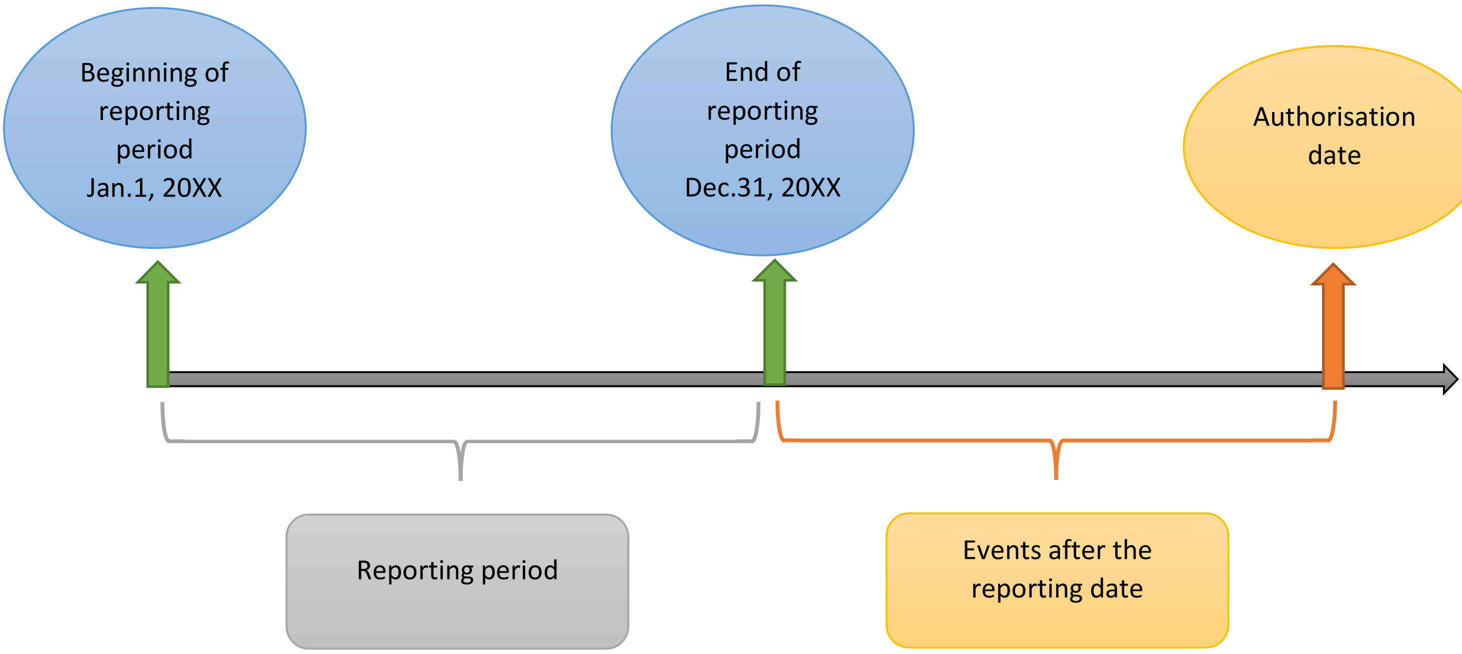
Figure 3. Types of Events After the Reporting Period



Events requiring adjustment after the reporting period: These are events that confirm the conditions that existed at the end of the reporting period. Non-adjusting events after the reporting period are related to events that occur after the reporting period.

Another critical point for understanding the events after the reporting period is the authorization date. The authorization date is a cut-off point in determining which events are after reporting period and which are not. Events occurring before the authorization date may affect the financial statements, while events occurring after the authorization date are not relevant to the financial statements of the period. The authorization date of the financial statements must first be determined in order to be able to determine where the events after the reporting period end. Figure 4 shows the beginning and end of reporting period and events after the reporting period.

Figure 4. Beginning and Ending of Reporting Period and Events After the Reporting Date

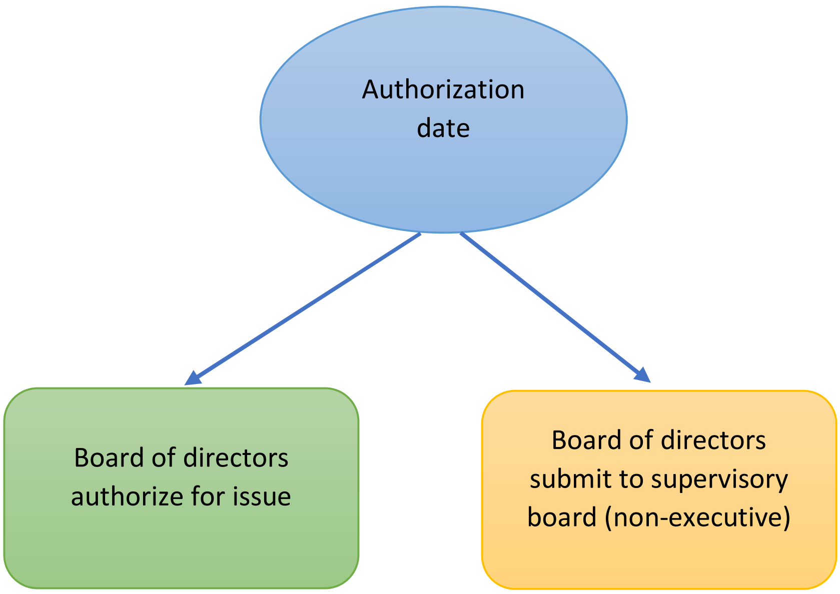


In IAS 10, the basic principle in determining the authorization date of the financial statements is as follows:

- If the financial statements are to be submitted to shareholders for approval after the issue date, the date of authorization is the date of issue by the board of directors, not the date of submittal or approval (IAS 10, 5).
- If management is required to submit the financial statements to a wholly non-executive supervisory board, the authorization date is the date on which the management authorizes the financial statements for submittal to the supervisory board (IAS 10, 6).

Figure 5 shows the alternatives of authorization date.

Figure 5. Alternatives of Authorization Date



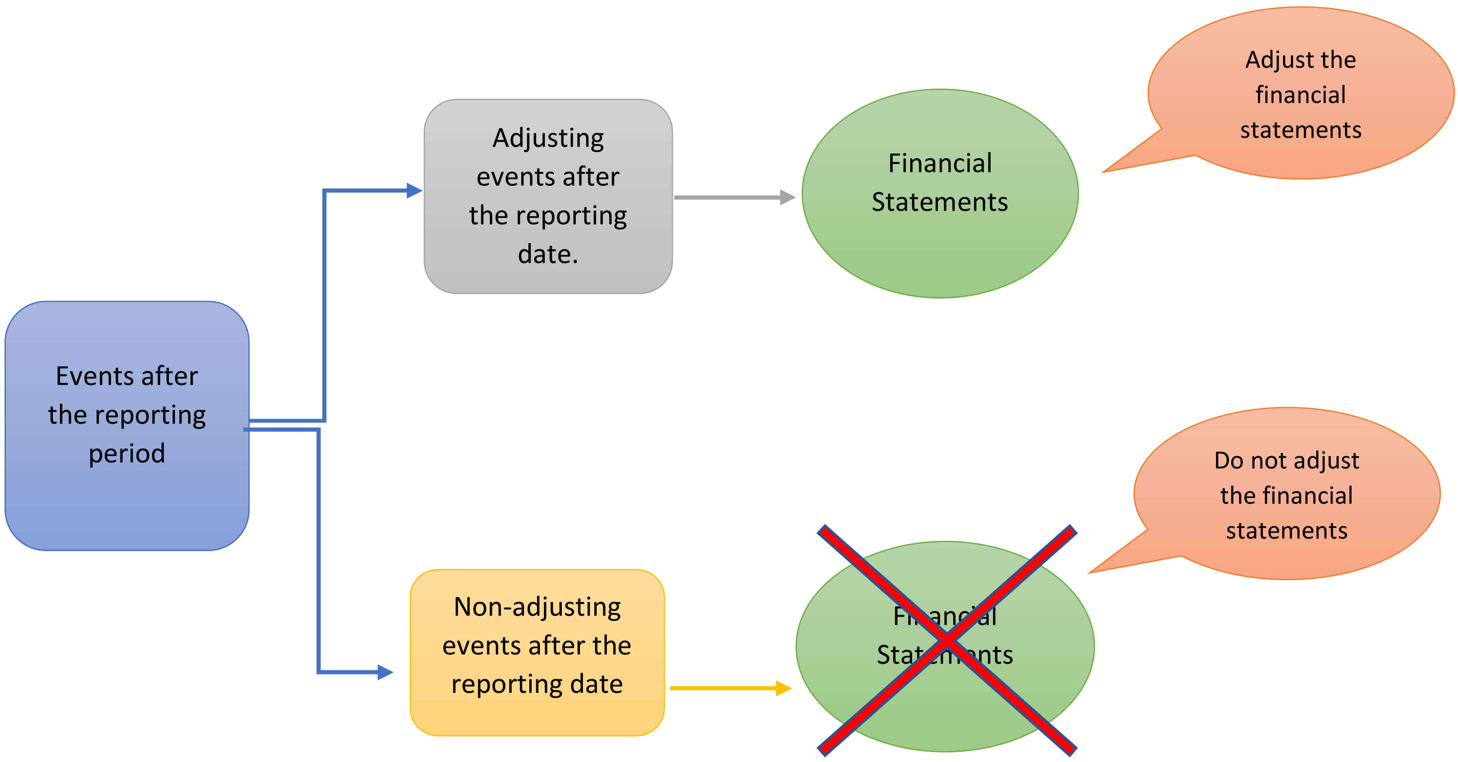
For example, an entity completed the preparation of its financial statements for the fiscal year ending on December 31, 2021 on February 15, 2022. The board of directors began reviewing the financial statements on February 25, 2022 and authorized such for submittal to shareholders on March 3, 2022. The financial statements submitted to the shareholders on March 8, 2022. The financial statements were approved at the general meeting of shareholders on March 15, 2022. The authorization date of the financial statements is March 3, 2022, which is the date of authorization by the board of directors for submittal to shareholders.

RECOGNITION AND MEASUREMENT

Events after the financial report date should be divided into two: namely, adjusting events after the reporting period and non-adjusting events after the reporting period.

Adjusting events after the reporting period require the entity to make adjustments to its financial statements. Necessary adjustments should be made using additional information obtained regarding events that existed at the date of the statement of financial position. It should be noted that events requiring adjustment arose after the end of the reporting period. However, these events are related to conditions that existed at the date of the financial statements. The effects of these events on the financial statement are not known at the end of reporting period and their effects on the financial statements have become certain after the date of the financial statement. The main purpose of these adjustments in financial statements is to help financial statements users because these adjustments provide more up-to-date and realistic information to users. It should be noted that the events requiring adjustment are only those that occur between the end of the financial year and the date of authorization of financial statements by the board of directors. Figure 6 presents the accounting treatment for events after the reporting period.

Figure 6. Accounting Treatment for Events After the Reporting Period



Various examples can be given of events that require adjustment after the reporting date:

- There may be events after the reporting date that finalize the entity's obligation (such as the conclusion of a lawsuit). In this case, the provisions should be corrected. For example, a lawsuit filed against the entity on November 10, 2021 was settled on January 15, 2022 and the entity is required to pay CU 20,000 compensations. The entity has not included a provision in the financial statements regarding this lawsuit and disclosed it as a contingent liability. This is an adjusting event after the reporting date and should be adjusted. The entity must recognize a lawsuit related expense and report the liability in the statement of financial position. In order to do this, the lawsuit compensation expense is debited and the lawsuit compensation liability account credited, with an adjustment entry at the end of the period.

Dr.	LAWSUIT COMPENSATION EXPENSE (P&L)	20,000	
Cr.	LAWSUIT COMPENSATION LIABILITY (LIABILITIES)		20,000

  With this adjustment, while the profit of the entity will decrease in the statement of profit or loss, its liabilities will increase in the statement of financial position.

- After the reporting period, it may be determined that an asset is impaired or a previously recognized loss needs to be adjusted. An entity may complete an asset's impairment test, obtain information about a customer's bankruptcy or determine the net realizable value of inventories, after the reporting period. For example, a machine that the entity uses in its operations has a carrying amount of CU 100,000, but its recoverable amount has not yet been determined at the reporting date. The recoverable value of the machine on January 5, 2022 was determined as CU 90,000. CU 10,000 impairment loss should be recognized in financial statements as an adjustment after the reporting date. The entity debits the impairment loss account and credits the allowance for impairment account.

Dr.	IMPAIRMENT LOSS - MACHINERY (P&L)	10,000	
Cr.	ALLOWANCE FOR IMPAIRMENT – MACHINERY (ASSETS)		10,000

  With this adjustment, the profit of the entity will decrease in the statement of profit or loss and its assets will decrease in the statement of financial position.

- The entity believes that as of December 31, 2021, the value of mobile phones in his inventory has decreased. There are 100 mobile phones in merchandise inventory and cost of one mobile phone is CU 1,000. Since these mobile phones were not sold in December, the selling price could not be determined reliably. On January 18, 2022, 40 mobile phones were sold. The selling price is CU 950. The entity can now determine the net realizable value (Net realizable value is the net amount that the entity expects to receive from the sale of inventories). Companies report their inventories at its cost or net realizable value, whichever is the lower. In this case, net realizable value is CU 3,000 below cost. CU 3,000 loss on inventory should be recognized in financial statements as an adjustment after the reporting date. Entity debits the loss on inventory account and recognize this loss in statement of profit or loss. In addition, by crediting the write-down for inventories account, the net value of the inventory is reduced to the net realizable value.

Dr.	LOSS ON INVENTORY (P&L)	3,000	

Cr. WRITE-DOWN FOR INVENTORIES (ASSETS) 3,000

With this adjustment, the profit of the entity will decrease in the statement of profit or loss and its assets will decrease in the statement of financial position.

- The costs of assets purchased or gains from assets sold before the reporting period can be determined after the end of the reporting period. For example; an Entity had some renovations made on an old building by an architecture office. Renovations started on December 1, 2021 and completed on December 29, 2021. The architectural office sent the invoice of CU 40,000 for the renovation on January 5, 2022. Renovation activity related to the accounting period before the reporting date, but its cost has been determined after the end of the reporting period. It should be recognized in financial statements as an adjustment after the reporting date. In the adjusting entry, the buildings account is debited and the related liability account is credited.

Dr.	BUILDINGS (ASSETS)	40,000	
Cr.	OTHER PAYABLES (LIABILITIES)		40,000

With this adjustment, both assets and liabilities will increase in the statement of financial position.

- When the reporting period ends, the entity may have an obligation to pay dividends or bonuses for events that occurred before the reporting period. If the amounts of these liabilities are determined after the reporting period, adjustments should be made and their effects should be reported in the financial statements. For example; an entity distributes 10% premium to its employees from its pre-tax profit every year. The profit before tax for 2021 was determined on February 18, 2022. The entity will distribute CU 300,000 as bonus for 2021 to its employees. It should be recognized in financial statements as an adjustment after the reporting date. Entity debits the salaries expense account and credits the salaries payable account.

Dr.	SALARIES EXPENSE (P&L)	300,000	
Cr.	SALARIES PAYABLES (LIABILITIES)		300,000

With this adjustment, while the profit of the entity will decrease in the statement of profit or loss, its liabilities will increase in the statement of financial position.

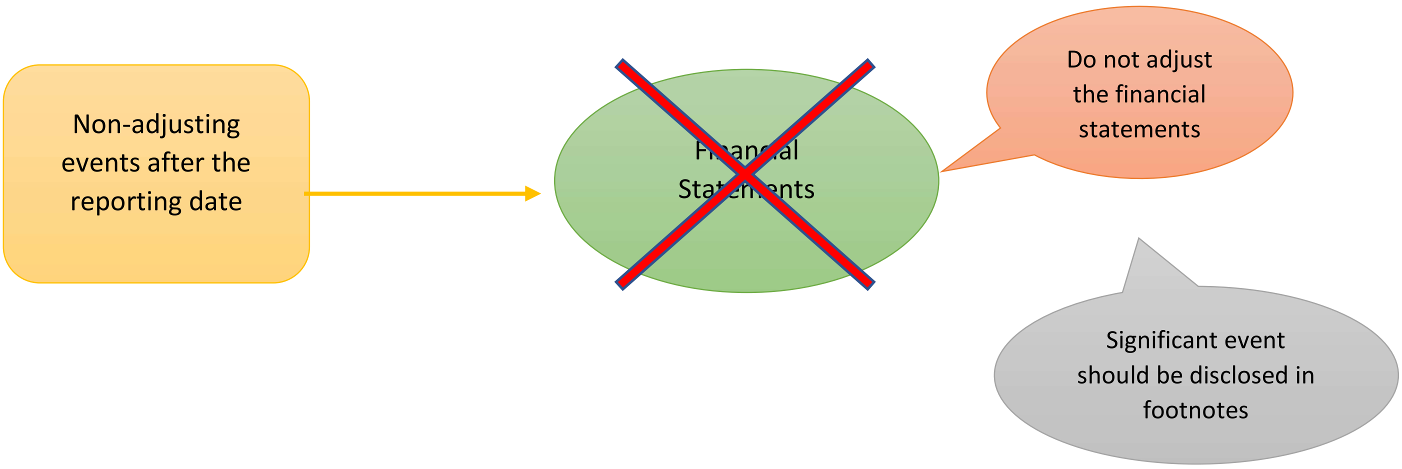
- Errors and frauds affecting the financial statements may be detected after the reporting date. An entity receives internal control services from an accounting firm. In the report dated February 1, 2022 from the accounting firm, it is understood that entity mistakenly recorded the sales invoice for CU 150,000 issued on December 5, 2021 as CU 15,000. This is an adjusting event after the reporting date and should be adjusted with an adjusting entry. The entity debits the accounts receivables account and transfers the unrecorded amount to this account. The sales revenue account is credited and the same amount is transferred to the statement of profit or loss.

Dr.	ACCOUNTS RECEIVABLE (SALES)	135,000	
Cr.	SALES REVENUE (P&L)		135,000

With this adjustment, both assets and profit will increase in the statement of financial position.

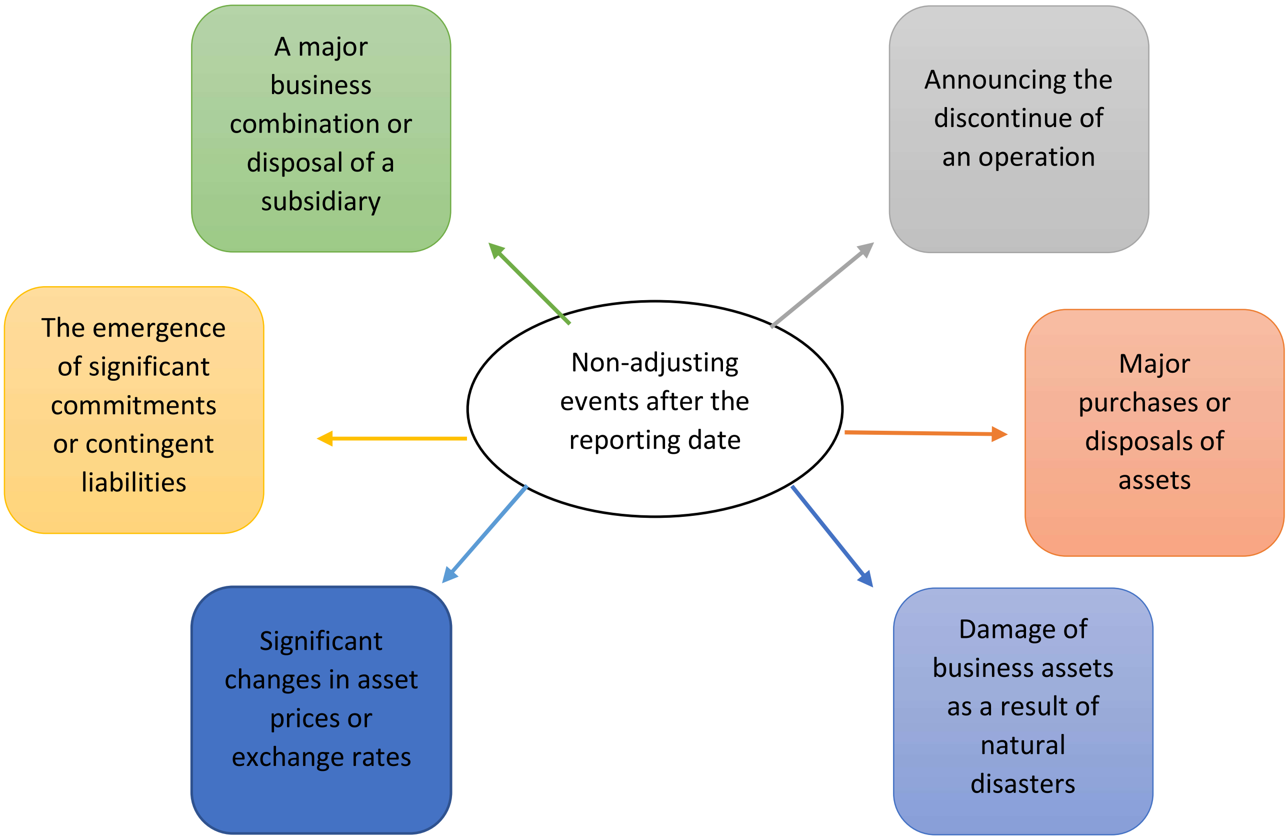
Non-adjusting events after the reporting period are the events that do not exist at the date of the statement of financial position. These events occurred after the reporting period and do not require adjustments to the financial statements. On the other hand, if non-adjusting events after the reporting period are considered as significant, these events should be disclosed in the notes to the financial statements. It should be noted that when determining non-adjusting events after the reporting period, the period between the end of the financial year and the date of authorization of the financial statements by the board of directors should be taken into consideration. Figure 7 shows the accounting treatment for non-adjusting events after the reporting period.

Figure 7. Accounting Treatment for Non-Adjusting Events After the Reporting Period



Different examples of non-adjusting events after the reporting period can be given; a major business combination or disposal of a subsidiary, announcing the discontinuation of an operation, major purchases or disposals of assets, damages to business assets as a result of natural disasters (such as destruction of plant or inventory because of an earthquake or fire), significant changes in asset prices or exchange rates, the emergence of significant commitments or contingent liabilities. Figure 8 shows some examples related to non-adjusting events after the reporting date.

Figure 8. Examples of Non-Adjusting Events After the Reporting Date

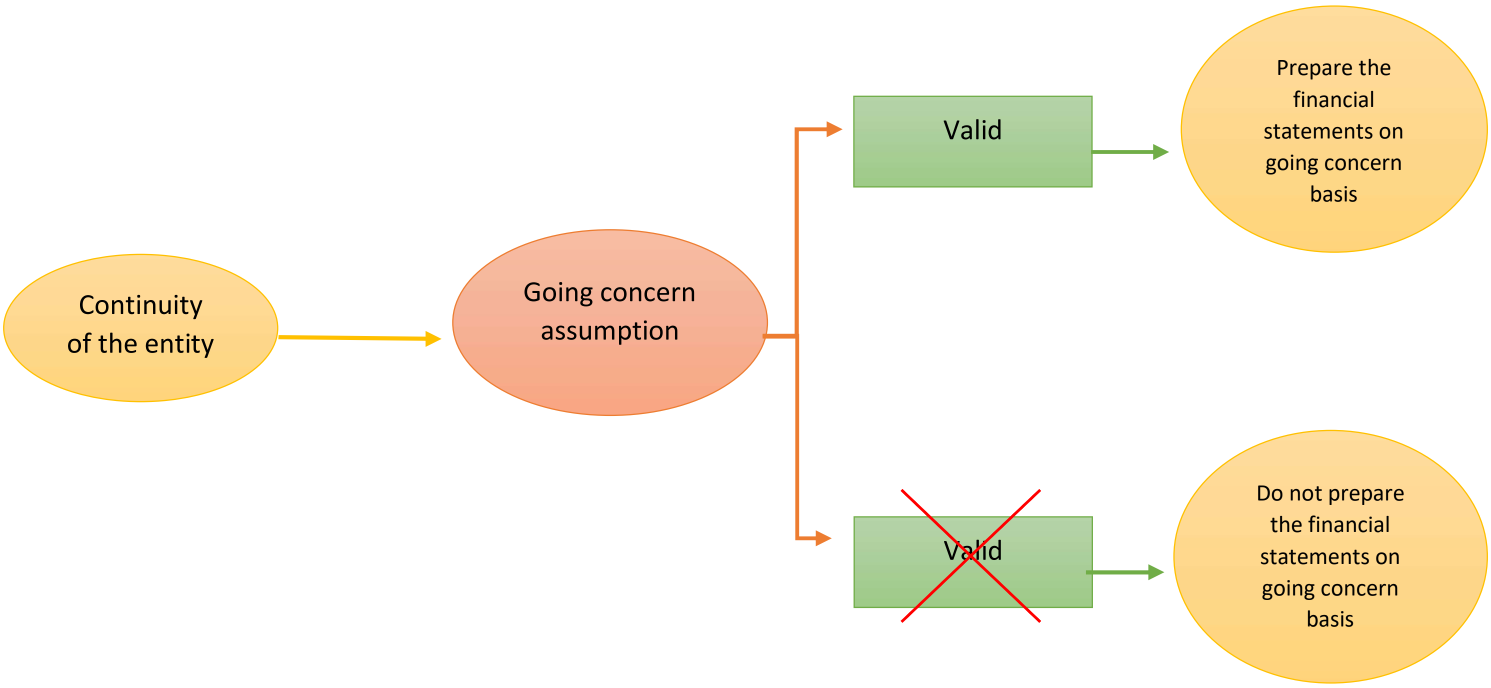


Another example of non-adjusting events after the reporting period would be dividends. If the entity announces that it will distribute dividends after the reporting period but before the financial statements are authorized, dividends are not recognized in the financial statements of the reporting period. Dividends declared in this period are required to be disclosed in the notes to the financial statements in accordance with the IAS 1 Standard. Figure 9 presents the accounting treatment for dividends related to IAS 10.

Figure 9. Accounting Treatment for Dividends Related to IAS 10

An event that may occur after the reporting period, but have a much greater impact than the adjustment in the financial statements or disclosure in the notes, is whether the going concern assumption is still valid. The IAS 1 Standard states that the management of the entity should assess the continuity when preparing financial statements. The entity prepares the financial statements on a going concern basis unless management intends to liquidate the entity or cease trading or has no realistic alternative to do so. IAS 10 requires an entity not to prepare its financial statements on a going concern basis if management determines that it intends to liquidate the entity or cease trading after the end of the reporting period, or has no realistic alternative but to do so. Figure 10 shows the relation between the going concern assumption and IAS 10.

Figure 10. Relation Between Going Concern Assumption and IAS 10



DISCLOSURES

The disclosures that the entities shall make related to the events after the reporting period in the notes of the financial statements are specified in the IAS 10 Standard. The explanations to be made can be summarized as follows (IAS 10, 17-22):

- The date the financial statements were authorized for issue and who gave that authorization. If entity's owners have the authority to change the financial statements after they are issued, this should also be disclosed.
- If there is requirement for adjusting events after the reporting period, disclosures related to these events must also be updated.
- Disclosures may be required for non-adjusting events after the reporting period. However, these events must be significant enough to affect the financial statement users' decisions. In such cases, the entity should disclose the nature of the event and its effect on the financial statements for each event that is considered material. If the financial effect of the event cannot be estimated, it should be disclosed that the estimation cannot be made.

EXAMPLE

The preparation of financial statements of the entity for the financial year ending on December 31, 2021 were completed on February 24, 2022. The board of directors began reviewing the financial statements on February 27, 2022 and authorized for submit to shareholders on March 5, 2022.

The events that occurred between the end of financial year and the authorization date are listed below:

a) A lawsuit filed against the entity on December 10, 2021 was settled on February 10, 2022 and the entity is required to pay CU 40,000 compensations. The entity has not recognized a provision in the financial statements regarding this lawsuit and disclosed it as a contingent liability.
b) Entity completed an asset's impairment test on January 30, 2022. The asset that the entity uses in its operations has a carrying amount of CU 150,000 and the recoverable value of the asset was determined as CU 120,000.
c) Entity believes that as of December 31, 2021, the value of the inventory has decreased. The book value of inventory on December 31, 2021 is CU 350,000. Net realizable value of inventory was determined as CU 340,000 on January 22, 2022.
d) Entity distributes 5% premium to its employees from its pre-tax profit every year. The profit before tax for 2021 was determined on February 10, 2022. The entity will distribute CU 100,000 as bonus for 2021 to its employees.
e) On January 12, 2022, entity purchased the shares of another entity for CU 1,000,000.
f) The entity decided to classify some of the equipment as non-current assets held for sale on February 7, 2022.
g) On January 5, 2022, a lawsuit was filed against the company on the grounds that it did not fulfill its contractual obligations. The Claimed compensation is CU 40,000.

While determining the events after the reporting period, the period between the end of the financial year and the date the financial statements are authorized by the management should be taken into account. Of the events above, a, b, c and d are events that require adjustments in the financial statements. E, f and g are events should be disclosed in the notes of the financial statements if they are considered significant. The journal entries for the events requiring adjustment in the financial statements will be as follows.

a)

Dr.	LAWSUIT COMPENSATION EXPENSE (P&L)	40,000	
Cr.	LAWSUIT COMPENSATION LIABILITY (LIABILITIES)		40,000

b)

Dr.	IMPAIRMENT LOSS (P&L)	30,000	
Cr.	ALLOWANCE FOR IMPAIRMENT – MACHINERY (ASSETS)		30,000

c)

Dr.	LOSS ON INVENTORY (P&L)	10,000	
Cr.	WRITE-DOWN FOR INVENTORIES (ASSETS)		10,000

d)

Dr.	SALARIES EXPENSE (P&L)	100,000	
Cr.	SALARIES PAYABLES (LIABILITIES)		100,000