LEARNING OUTCOMES

After studying this unit, you will be able to:

- Define the relevant terms like ‘events after the reporting period’, ‘date of approval’, ‘adjusting events’ and ‘non-adjusting events’.
- Differentiate between adjusting events and non-adjusting events in terms of their treatment and disclosure.
- Understand the treatment for special cases.
2.1 INTRODUCTION

It is impossible for any company to present the information on the same day, as the day of reporting. There would always be a gap between the end of the period for which financial statements are presented and the date on which the same will actually be made available to the public.

During this gap, there is a possibility of occurring of few events which will have far reaching effects on the business / existence of the company. Now the question arises: what view the company should take about such events? Should it leave it without any cognizance as they are taking place after the reporting period, or should it take cognizance of such events as at the time of making it public? If the company is aware of the facts and is still not disclosing the same, it may mislead the users.
Ind AS 10 deals with such events and provides guidance about its treatment in the financial statements.

2.2 OBJECTIVE

The objectives of the standard are divided mainly in three points.

1. Guidelines for taking a decision regarding adjusting or not adjusting the financial statements for the events after the reporting period.

2. Guidelines regarding the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

3. Guidelines when the going concern assumption is no longer appropriate: The standard 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 no longer appropriate.

2.3 SCOPE

The Standard is mainly applicable in respect of the following two matters:

1. Accounting for events after reporting period

2. Disclosure of events after the reporting period.

2.4 DEFINITIONS AND EXPLANATIONS

We have seen above that the main focus of the standard is events after the reporting period. Therefore, it is necessary to understand the meaning of it.

2.4.1 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved.

Example

The financial year of an entity ends on 31st March, 20X2. If the board of directors approves the financial statements on 15th May, 20X2, ‘after the reporting period’ will be the period between 31st March, 20X2 and 15th May, 20X2 and the events occurring during this period should be considered as ‘events after the reporting period’.
2.4.2 Approval of Financial statements

The definition says that the last date of the concerned period is the date of approval of financial statements. Now the question arises: what is meant by approval of financial statements? When can one say that the financial statements are approved? Which body needs to be considered as approving authority? If there is a hierarchy of approvals, at what level, one can assume that the financial statements are approved?

As per the standard,

(i) **In case of a company:** The financial statements will be treated as approved when board of directors approves the same.

(ii) **In the case of any other entity:** The financial statements will be treated as approved when the corresponding approving authority approves the same. The standard does not mention specifically what will constitute the approving authority in case of any other entity. But from the word “Corresponding” one can construe that it is the body which is authorised to manage the entity on behalf of all members.

(iii) **If shareholders’ approval is must**, then should the approval date be considered as the date on which the shareholders approve it?

Even though shareholders’ approval is needed, yet, for the purpose of deciding the events after the reporting period, the date of approval will be considered as the date of approval by the board of directors only.

**Example**

The Board of Directors of ABC Ltd., in its meeting on 5th May, 20X1, reviews and approves the financial statements for the year ended 31st March, 20X1 and issues them to the shareholders. The financial statements are adopted by the shareholders in the annual general meeting on 23rd June, 20X1. The date of approval of financial statements for the purpose of this standard is 5th May, 20X1.

(iv) What date should be considered, if in some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval?

In such cases, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

**Example**

On 18th May, 20X2, the management of an entity approves financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26th May, 20X2. The financial statements are made available to shareholders and others on 1st June, 20X2. The shareholders approve the
financial statements at their annual meeting on 15th July, 20X2 and the financial statements are then filed with a regulatory body on 17th July, 20X2. The financial statements are approved for issue on 18th May, 20X2 (date of management approval for issue to the supervisory board).

2.4.3 When date of approval is after the public announcement of some other financial information

‘Events after the reporting period’ include all events up to the date when the financial statements are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Example

The financial year ends on 31st March, 20X7. A company can conduct the AGM any time before 30th September, 20X7. However, the company needs to publish the results for quarter ended 30th June, 20X7 as interim results. The board of the directors (BOD) approves the financial statements on 30th August, 20X7. As BOD is approving the accounts on 30th August, 20X7, ‘after the reporting period’ will be the period between 31st March, 20X7 and 30th August, 20X7. However, in between, the partial financial information has already been published.

Now the question arises that if any information is revealed after the release of interim results for the quarter ended 30th June, 20X7, but before 30th August, 20X7, should it be considered for the purposes of Ind AS 10 or not since partial information has already been published without considering the event that was revealed after publishing some financial information? Will taking the cognizance of the additional information confuse the stakeholders? Will it be misleading?

In such a situation, Ind AS 10 requires that even if partial information has already been published, events after the reporting period should be considered.

Illustration 1

What is the date of approval for issue of the financial statements prepared for the reporting period from April 1, 20X1 to March 31, 20X2, in a situation where following dates are available?
Completion of preparation of financial statements May 28, 20X2
Board reviews and approves it for issue June 19, 20X2
Available to shareholders July 01, 20X2
Annual General Meeting September 15, 20X2
Filed with regulatory authority October 16, 20X2

Will your answer differ if the entity is a partnership firm?

Solution

As per Ind AS 10 the date of approval for issue of financial statements is the date on which the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity. Accordingly, in the instant case, the date of approval is the date on which the financial statements are approved by the Board of
Directors of the company, i.e., June 19, 20X2.

In the case of an entity is a partnership firm, the date of approval will be the date when the relevant approving authority of such entity approves the financial statements for issue i.e. the date when the partner(s) of the firm approve(s) the financial statements.

*****

Illustration 2

ABC Ltd. prepared interim financial report for the quarter ending June 30, 20X1. The interim financial report was approved for issue by the Board of Directors on July 15, 20X1. Whether events occurring between end of the interim financial report and date of approval by Board of Directors, i.e., events between July 1, 20X1 and July 15, 20X1 that provide evidence of conditions that existed at the end of the interim reporting period shall be adjusted in the interim financial report ending June 30, 20X1?

Solution

Paragraph 3 of Ind AS 10, *inter alia*, defines ‘Events after the reporting period’ as those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

What is reporting period has not been dealt with in Ind AS 10. Absence of any specific guidance regarding reporting period implies that any term for which reporting is done by preparing financial statements is the reporting period for the purpose of Ind AS 10. Accordingly, financial reporting done for interim period by preparing either complete set of financial statements or by preparing condensed financial statements will be treated as reporting period for the purpose of Ind AS 10.

Paragraph 2 of Ind AS 34, *inter alia*, provides that each financial report, annual or interim, is evaluated on its own for conformity with Ind AS. Further, paragraph 19 of Ind AS 34, provides that an interim financial report shall not be described as complying with Ind AS unless it complies with all of the requirements of Ind AS.

In accordance with the above, an entity describing that its interim financial report is in compliance with Ind AS, has to comply with all the Ind AS including Ind AS 10.

In order to comply with the requirements of Ind AS 10, each interim financial report should be adjusted for the adjusting events occurring between end of the interim financial report and the date of approval by Board of Directors. Therefore, in the instant case, events occurring between July 1, 20X1 and July 15, 20X1 that provide evidence of conditions that existed at the end of the interim reporting period should be adjusted in the interim financial report ending June 30, 20X1.

*****
Illustration 3

The Board of Directors of ABC Ltd. approved the financial statements for the reporting period 20X1-20X2 for issue on June 15, 20X2. The management of ABC Ltd. discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently approved by the Board of Directors on June 30, 20X2. What is the date of approval for issue as per Ind AS 10 in the given case?

Solution

Date of approval is the date on which the financial statements are approved by the Board of Directors in case of a company, and by the corresponding approving authority in case of any other entity for issue. In the given case, there are two dates of approval by Board of Directors. The financial statements were reopened for further adjustments subsequent to initial approval. The date of approval should be taken as the date on which financial statements are finally approved by the Board of Directors. Therefore, in the given case, the date of approval for issue as per Ind AS 10 should be considered as June 30, 20X2.

2.4.4 Should the company report only unfavourable events?

The standard clearly states that events can be favourable as well as unfavourable.

2.5 TYPES OF EVENTS

The ‘events after the reporting period’ are classified into two categories

(i) **Adjusting Events**: those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(ii) **Non Adjusting Events**: those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

2.6 RECOGNITION AND MEASUREMENT OF ADJUSTING EVENTS

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

Examples of adjusting events after the reporting period

The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:
(a) 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 recognised provision related to this court case in accordance with Ind AS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’ or recognises 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 paragraph 16 of Ind AS 37.

**Illustration 4**

A case is going on between ABC Ltd., and GST department on claiming some exemption for the year 20X1-20X2. The court has issued the order on 15th April, 20X2 and rejected the claim of the company. Accordingly, the company is liable to pay the additional tax. The financial statements of the company for the year 20X1-20X2 have been approved on 15th May, 20X2. Should the company account for such tax in the year 20X1-20X2 or should it account for the same in the year 20X2-20X3?

**Solution**

An event after the reporting period is an adjusting event, if it provides evidence of a condition existing at the end of the reporting period. Here, this condition is satisfied. Court order received after the reporting period provides the evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amounts will be adjusted in financial statements for 20X1-20X2.

*****

(b) 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 recognised impairment loss for that asset needs to be adjusted. For example:

(i) 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;

**Example**

Loss allowance for expected credit loss in respect of the amount due from a customer was recognised at the end of the reporting period in accordance with Ind AS 109, ‘Financial Instruments’. Subsequent liquidation order on the customer issued before the date of approval of financial statements for the reporting period indicates that nothing could be received from the customer. This confirms that the expected credit loss at the end of the reporting period on this particular trade receivable is equal to its gross carrying amount and, consequently, the entity needs to adjust the loss allowance for the expected credit loss at the end of the reporting period so that net carrying amount of this particular trade receivable at the end of the reporting period is zero.
Illustration 5

While preparing its financial statements for the year ended 31st March, 20X1, XYZ Ltd. made a general provision for bad debts @ 5% of its debtors. In the last week of February, 20X1 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. Considering the event of earthquake, XYZ Ltd. made a provision @ 50% of the amount receivable from that debtor apart from the general provision of 5% on remaining debtors. In April, 20X1 the debtor became bankrupt. Can XYZ Ltd. provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 20X1?

Would the answer be different if earthquake had taken place after 31st March, 20X1, and therefore, XYZ Ltd. did not make any specific provision in context that debtor and made only general provision for bad debts @ 5% on total debtors?

Solution

As per the definition of ‘Events after the Reporting Period’ and paragraph 8 of Ind AS 10, Events after the Reporting Period, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the earthquake took place before the end of the reporting period, i.e., in February 20X1. Therefore, the condition exists at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to ₹ 2 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended March 31, 20X1. Since provision for bad debts on account of amount due from that particular debtor was made @ 50%, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt.

In case, the earthquake had taken place after the end of the reporting period, i.e., after 31st March, 20X1, and XYZ Ltd. had not made any specific provision for the debtor who was declared bankrupt later on, since the earthquake occurred after the end of the reporting period no condition existed at the end of the reporting period. The company had made only general provision for bad debts in the ordinary business course and not to recognise the catastrophic situation of an earthquake. Accordingly, bankruptcy of the debtor in this case is a non-adjusting event.

As per para 21 of Ind AS 10, if non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, 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.”
If the amount of bad debt is considered to be material, the nature of this non-adjusting event, i.e., event of bankruptcy of the debtor should be disclosed along with the estimated financial effect of the same in the financial statements.

*****

(ii) The sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.

While making the valuation of closing inventories, Ind AS 2, Inventories, prescribes the general principle that the inventories need to be valued at cost or net realisable value, whichever is less. In such cases, net realisable value is based on sales after the reporting period. However, normally that would be the most realistic value to be applied to the closing inventories, if it is less than cost. Therefore, in such cases, the value which is available after the reporting period will be used for valuation of closing inventories of the reporting period, if the same is less than cost.

**Example**

Entity A values its inventories at cost or NRV, whichever is less. Entity A has 10 pieces of item A in its stock at the year end. Each item costs ₹ 500. All these items are sold subsequently but before the date of approval of financial statements for the reporting period at ₹ 450 per piece. The sale of inventories after the reporting period normally provides evidence about their net realisable value at the end of the reporting period.

**Illustration 6**

A company has inventory of 100 finished cars on 31st March, 20X2, which are having a cost of ₹ 4,00,000 each. On 30th April, 20X2, as per the new government rules, higher road tax and penalties are to be paid by the buyers for such cars (which were already expected to come) and hence the selling price of a car has come down and the demand for such cars has dropped drastically. The selling price has come down to ₹ 3,00,000 each. The financial statements of the company for the year 20X1-20X2 are not yet approved. Should the company value its stock at ₹ 4,00,000 each or should it value at ₹ 3,00,000 each? Ignore estimated costs necessary to make the sale.

**Solution**

Events after the reporting period provide the evidence about the net realisable value of the cars at the end of the reporting period and, therefore, the amount of ₹ 3,00,000 should be considered for the valuation of stock.

*****

(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.

Same principle can be applied for sale of assets as well.
Example
The sale of an asset took place in March, 20X2. However, the actual consideration was determined and collected after 31st March, 20X2, i.e., on 10th May, 20X2 (date of approval of financial statements was 15th May, 20X2). In such a situation, sale value recognised in the books as on 31st March, 20X2 should be adjusted.

Illustration 7
ABC Ltd., has purchased a new machinery during the year 20X1-20X2. The asset was finally installed and made ready for use on 15th March, 20X2. However, the company involved in installation and training, which was also the supplier, has not yet submitted the final bills for the same.

The supplier company sent the bills on 10th April, 20X2, when the financial statements were not yet approved. Should the company adjust the amount of capitalisation in the year 20X1-20X2 or in the year 20X2-20X3?

Solution
As per the provisions of the contract, the cost of installation and training of new machine is an integral part of the cost of asset purchased. Therefore, even if the details are available after reporting period, they provide proof about the circumstances that existed at the end of reporting period. Therefore, the cost of installation and training will be considered for capitalisation in the year 20X1-20X2.

****

(d) 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 (see Ind AS 19, Employee Benefits).

The careful reading of the above provision brings forth following two points:

(i) There is a legal or constructive obligation at the end of reporting period

(ii) The obligation is based on profit sharing or bonus payments.

Here one would understand that before the year end, one cannot determine the amount of profit. Unless one determines the final amount of profit, one cannot finalise the amount of profit sharing as the latter is related to the former. Therefore, such events must be considered for the adjustments in financial statements, provided, the contract already exists on the last day of reporting period.

(e) The discovery of fraud or errors that show that the financial statements are incorrect.

Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, inter alia, deals with errors that occurred in the previous period(s), which includes, for the purposes of that
standard, frauds. However, Ind AS 10 focuses on the errors including frauds which are revealed after the reporting period. In any case, the entity is not supposed to present any misstatement to the stakeholders, especially when it has knowledge about the errors and frauds. Therefore, if any error or any fraud is detected after the reporting period, which is related to the reporting period, then the entity must adjust the financial statements appropriately by rectifying the same.

### 2.7 ACCOUNTING TREATMENT AND DISCLOSURE OF 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.

An example of a non-adjusting event after the reporting period is a decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure.

### 2.8 SPECIAL CASES

#### 2.8.1 Long-term Loan Arrangements

Notwithstanding anything contained in the definition of non-adjusting events, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.

**Example**

ABC Ltd., in order to raise funds, has privately placed debentures of ₹ 1 crore, on 1st January, 20X1, issued to PQR Ltd. As per the original terms of agreement, the debentures are to be redeemed on 31st March, 20X9. One of the conditions of the private placement of the debentures was that debt-equity ratio at the end of any reporting year should not exceed 2:1. If this condition is not fulfilled, then, PQR Ltd., has a right to demand immediate redemption of the debentures. On 31st March, 20X6, debt-equity ratio of ABC Ltd., exceeds 2:1. Therefore, PQR Ltd., decides to return the debentures.
Thus, on 31st March, 20X6, the liability of the ABC Ltd., towards PQR Ltd., (which was originally a long-term liability) becomes a current liability, since, it is now a liability on demand. However, ABC Ltd., enters into an agreement with PQR Ltd., on 15th April, 20X6 that PQR Ltd., will not demand the payment immediately. The financial statements are approved by the BOD on 30th April, 20X6.

Now, in such a case, the liability is turning into demand liability on 31st March, 20X6. The agreement that PQR Ltd., will not demand the money immediately is a subsequent event. Even though it is a subsequent event not affecting the condition existing at the balance sheet date, yet because of the specific provisions of Ind AS 10, it has to be given effect in the financial statements for the year 20X5-20X6. Accordingly, though as per original terms the liability would have been otherwise reclassified as a current liability as on 31st March, 20X6, by giving effect to the event after the reporting period due to the specific provisions of Ind AS 10, it would continue to be classified as a non-current liability as on 31st March, 20X6. In other words, the re-classification of debentures as current liability as at 31st March, 20X6 will be adjusted and once again classified as a non-current liability as at that date.

### 2.8.2 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.

- Ind AS 1 specifies required disclosures if:
  
  (a) the financial statements are not prepared on a going concern basis; or
  
  (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.

Going concern approach has a lot of importance in the financial statements. Going concern approach can be applied if and only if the entity has intentions to continue its operations. The carrying amount of assets and carrying amount of liabilities will be much different if the entity has plans to go in for liquidation.
Example

A going concern company assumes that the raw material inventory and work in progress will be completed in due course and the inventories of finished goods would be ready for sale. But, if the company has no intention to continue with the business, it may take a decision to sell the raw material and WIP at best available market price, may be at scrap value also.

If a company decides to go into liquidation, then the long-term liabilities of the company will turn into short-term liabilities as the company will have to pay all its debts before it closes down its operations. Thus, the overall approach of accounting will change when there is no going concern approach.

Therefore, Ind AS 10, specifically requires that if after the reporting period but before approval of the financial statements, there are any signs of not continuing the operations, or the decision is taken during that period not to continue with the operations, inspite of the fact that the decision was taken after the reporting period, still the entity should prepare the financial statements with a different approach and, accordingly, inform the stakeholders clearly that the is planning to cease operations.

Illustration 8

Company XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 20X1-20X2, 20X2-20X3, 20X3-20X4 and 20X4-20X5. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 20X5, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 20X5. The financial statements for the F.Y. 20X4-X5 have been approved by the Board of Directors on July 10, 20X5. Whether it is appropriate to prepare financial statements on going concern basis?

Solution

With regard to going concern basis to be followed for preparation of financial statements, paras 14 & 15 of Ind AS 10 states that-

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.

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that 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.

In the instant case, since contract is expiring on 31st December 20X5 and it is confirmed on 23rd April, 20X5, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity’s operations are expected to come to an end. Accordingly, if entity’s operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 20X4-X5 and thereafter on going concern basis may not be appropriate.

Illustration 9

In the plant of PQR Ltd., there was a fire on 10.05.20X1 in which the entire plant was damaged and the loss of Rs. 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of Rs. 27,00,000 is expected.

The financial statements for the year ending 31.03.20X1 were approved by the Board of Directors on 12th June 20X1. Show how should it be disclosed?

Solution

In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with paragraph 21 of Ind AS 10, disclosures regarding non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, since there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that 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, preparation of financial statements for the F.Y.20X0-X1 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31.03.20X1.

*****
2.9 DIVIDENDS

- If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, Financial Instruments: Presentation) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

- If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.

- The crux of difference between adjusting event and non-adjusting event depends on the fact whether the event provides evidence for existence of a condition at the end of reporting period or not.

**Illustration 10**

ABC Ltd., declares the dividend on 15th July, 20X2 as the results of year 20X1-20X2 as well as Q1 ending 30th June, 20X2 are better than expected. The financial statements of the company are approved on 20th July, 20X2 for the financial year ending 31st March, 20X2. Will the dividend be accounted for in the financial year 20X2-20X3 or will it be accounted for in the year 20X1-20X2?

**Solution**

The dividend is declared in the year 20X2-20X3. Therefore, the obligation towards dividend did not exist at the end date of reporting period i.e., on 31st March, 20X2. Therefore, it will be accounted for in the year 20X2-20X3 and not in 20X1-20X2, even if financial statements for 20X1-20X2 were approved after the declaration of dividend. It will, however, be disclosed in the notes in the financial statements for the year 20X1-20X2 in accordance with Ind AS 1.

*****

**Illustration 11**

What would be the treatment for dividends declared to redeemable preference shareholders after the reporting period but before the financial statements are approved for issue for the year 20X1-20X2. Whether Ind AS 10 prescribes any accounting treatment for such dividends?

**Solution**

Paragraph 12 of Ind AS 10 prescribes accounting treatment for dividends declared to holders of equity instruments. If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, Financial Instruments: Presentations) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

However, Ind AS 10 does not prescribe accounting treatment for dividends declared to
redeemable preference shareholders. As per the principles of Ind AS 32, Financial Instruments: Presentation, a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Thus, dividend payments to such preference shares are recognised as expense in the same way as interest on a bond. Since interest will be charged on time basis, the requirements of Ind AS 10 regarding date of declaration of dividend not relevant for its recognition.

*****

2.10 DISCLOSURE

2.10.1 Date of approval for issue

- An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity’s owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

- It is important for users to know when the financial statements were approved for issue, because the financial statements do not reflect events after this date.

Ind AS 10, underlines the importance of date of approval, by requiring a separate disclosure of the date of approval of financial statements. Note that this date is important because it gives a clear idea to the stakeholders about the period, which is covered after the reporting period, for providing information to the stakeholders. In a way, it determines the scope of the financial statements in terms of time.

2.10.2 Updating disclosure about conditions at the end of the reporting period

- 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.

In case of adjusting events, the entity is supposed to make the necessary adjustments in the financial statements. But just making the changes in the financial statements will not be sufficient as the stakeholders will not be in a position to understand why the adjustments are made. Therefore, in addition to adjustments in the financial statements, it is necessary to make the separate disclosure of the same.

- In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update
disclosures is when evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognise or change a provision under Ind AS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.

2.10.3 Disclosure of Non-adjusting events after the reporting period

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, 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.

Examples of non-adjusting events after the reporting period resulting in disclosure

(a) a major business combination after the reporting period Ind AS 103, Business Combinations, requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) announcing a plan to discontinue an operation;

(c) major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, other disposals of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire after the reporting period;

(e) announcing, or commencing the implementation of, a major restructuring (see Ind AS 37);

(f) major ordinary share transactions and potential ordinary share transactions after the reporting period (Ind AS 33, Earnings per Share, requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under Ind AS 33);

(g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see Ind AS 12, Income Taxes);

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the reporting period.
2.11 DISTRIBUTION OF NON-CASH ASSETS TO OWNERS

Sometimes an entity distributes non-cash assets as dividends to its equity shareholders. An entity may also give equity shareholders a choice of receiving either non-cash assets or a cash alternative.

Ind AS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements but does not prescribe how to measure it. Appendix A to Ind AS 10, Distribution of Non-cash Assets to Owners is relevant in this regard.

2.11.1 Applicability

- Appendix A to Ind AS 10 applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:
  (a) distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in Ind AS 103, ownership interests in another entity or disposal groups as defined in Ind AS 105); and
  (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

- It applies only to distributions in which all owners of the same class of equity instruments are treated equally.

2.11.2 Non-applicability

- This Appendix does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution.

- This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

- For a distribution to be outside the scope on the basis that the same parties control the asset both before and after the distribution, a group of individual shareholders receiving the distribution must have, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution.

- It does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with Ind AS 110, Consolidated Financial Statements.
This Appendix addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

2.11.3 Accounting Principles

When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable.

2.11.3.1 When to recognise a dividend payable

The liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date:

(a) when declaration of the dividend, e.g., by management or the board of directors, is approved by the relevant authority, e.g., the shareholders, if the jurisdiction requires such approval, or

(b) when the dividend is declared, e.g., by management or the board of directors, if the jurisdiction does not require further approval.

2.11.3.2 Measurement of a dividend payable

- An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

- If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

- At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

- When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

2.11.3.3 Presentation and disclosures

An entity shall present the difference between carrying amount of the assets distributed and the carrying amount of the dividend payable at the time of settlement of the dividend payable as a separate line item in profit or loss.

An entity shall disclose the following information, if applicable:

(a) the carrying amount of the dividend payable at the beginning and end of the period; and
(b) the increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.

If after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

(a) the nature of the asset to be distributed;
(b) the carrying amount of the asset to be distributed as of the end of the reporting period; and
(c) the fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to measure that fair value required to be disclosed by Ind AS 113, Fair Value Measurement.

2.12 SIGNIFICANT DIFFERENCES BETWEEN IND AS 10 AND AS 4

<table>
<thead>
<tr>
<th>S. No</th>
<th>Particulars</th>
<th>Ind AS 10</th>
<th>AS 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Title</td>
<td>Events after the Reporting Period</td>
<td>Contingencies and Events Occurring After the Balance Sheet Date</td>
</tr>
<tr>
<td>1.</td>
<td>Material non adjusting events</td>
<td>The standard requires material non-adjusting events to be disclosed in the financial statements.</td>
<td>AS 4 requires the same to be disclosed in the report of approving authority.</td>
</tr>
<tr>
<td>2.</td>
<td>Accounting treatment and disclosure in case of appropriateness of fundamental accounting assumption of going concern</td>
<td>If after the reporting date it is determined that the fundamental accounting assumption of going concern is no longer appropriate, Ind AS 10 requires a fundamental change in the basis of accounting.</td>
<td>AS 4 requires assets and liabilities to be adjusted for events occurring after the balance sheet date that indicate that the fundamental accounting assumption of going concern is not appropriate.</td>
</tr>
</tbody>
</table>

In this regard, Ind AS 10 refers to Ind AS 1, which requires an entity to make the following disclosures:
- disclose the fact that the financial statements are not prepared on a going concern basis together with the basis on which the financial statements are prepared.
- state the reason why the entity is not regarded as a going concern.

AS 4 does not require any such disclosure. However, AS 1 requires the disclosure of the fact in case going concern assumption is not followed.
3. **Breach of a material provision of a long-term loan arrangement**

Consequent to carve-out made in Ind AS 1, it has been provided in the definition of ‘Events after the reporting period’ that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.

No such guidance is given in AS 4

| 4. **Distribution of non-cash assets to owners** |

Ind AS 10 includes an Appendix *Distribution of Non-cash Assets to Owners* which deals, inter alia, with when to recognise dividends payable to its owners.

No such guidance is given in AS 4

---

**2.13 CARVE OUT IN IND AS 10 FROM IAS 10**

*As per IAS 10 Events after the Reporting Period:* Rectification of any breach after the end of the reporting period is a non-adjusting event.

*Carve Out:* As a consequence to carve-out made in Ind AS 1, Ind AS 10 provides, in the definition of ‘Events after the reporting period’ that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.
TEST YOUR KNOWLEDGE

Questions

1. ABC Ltd., has announced its interim results for Quarter 1, ending 30th June, 20X2 on 5th July, 20X2. However, till that time the AGM for the year 20X1-20X2 was not held. The financial statements for 20X1-20X2 were approved by the board of directors on 15th July, 20X2. What will be the ‘after the reporting period’ as per the definition given in Ind AS 10?

2. ABC Ltd., is in a legal suit with the GST department. The company gets a court order in its favour on 15th April, 20X2, which resulted into reducing the tax liability as on 31st March, 20X2. The financial statements for 20X1-20X2 were approved by the board of directors on 15th May, 20X2. The management has not considered the effect of the transaction as the event is favourable to the company. The company’s view is that favourable events after the reporting period should not be considered as it would hamper the realisation concept of accounting. Comment on the company’s views in the light of Ind AS 10.

3. ABC Ltd., is trading in laptops. On 31st March, 20X2, the company has 50 laptops which were purchased at ₹ 45,000 each. The company has considered the same price for calculation of closing inventory valuation. On 15th April, 20X2, advanced version of same series of laptops is introduced in the market. Therefore, the price of the current laptops crashes to ₹ 35,000 each. The financial statements for 20X1-20X2 were approved by the board of directors on 15th May, 20X2. The company does not want to value the stock at ₹ 35,000 less estimated costs necessary to make the sale as the event of reduction in selling price took place after 31st March, 20X2 and the reduced prices were not applicable as on 31st March, 20X2. Comment on the company’s views.

4. XY Ltd had taken a large-sized civil construction contract, for a public sector undertaking, valued at Rs. 200 Crores. Execution of the project started during 20X1-X2, and continued in the next financial year also. During the course of execution of the work on May 29, 20X2, the company found while raising the foundation work that it had met a rocky surface and cost of contract would go up by an extra Rs. 50 crore, which would not be recoverable from the Contractee as per the terms of the contract. The Company’s financial year ended on 31st March, 20X2, and the financial statements were considered and approved by the Board of Directors on 15th June, 20X2. How will you treat the above in the financial statements for the year ended 31st March, 20X2?

5. A Ltd. was required to pay penalty for a breach in the performance of a contract. A Ltd. believed that the penalty was payable at a lower amount than the amount demanded by the other party. A Ltd. created provision for the penalty but also approached the arbitrator with a submission that the case may be dismissed with costs. A Ltd. prepared the financial statements for the year 20X1-X2, which were approved in July 20X2. The arbitrator, in June 20X2, awarded the case in favour of A Ltd. As a result of the award of the arbitrator, the provision earlier made by
A Ltd. was required to be reduced. The arbitrator also decided that cost of the case should be borne by the other party. Now, whether A Ltd. is required to remeasure its provision and what would be the accounting treatment of the cost that will be recovered by A Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 20X1-X2?

6. A company manufacturing and supplying process control equipment is entitled to duty drawback if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty drawback credit. For the year 20X1-X2, the company has exceeded the specified limit of turnover by the end of the reporting period but the application for duty drawback is filed on April 20, 20X2, which is after the stipulated time of 15 days of meeting the turnover condition.

Duty drawback has been credited by the Department on June 28, 20X2 and financial statements have been approved by the Board of Directors of the company on July 26, 20X2. Whether duty drawback credit should be treated as an adjusting event?

7. XYZ Ltd. sells goods to its customer with a promise to give discount of 5% on list price of the goods provided that the payments are received from customer within 15 days. XYZ Ltd. sold goods of Rs. 5 lakhs to ABC Ltd. between 17th March, 20X2 and 31st March, 20X2. ABC Ltd. paid the dues by 15th April, 20X2 with respect to sales made between 17th March, 20X2 and 31st March, 20X2. Financial statements were approved for issue by Board of Directors on 31st May, 20X2.

State whether discount will be adjusted from the sales at the end of the reporting period.

8. Whether the fraud related to 20X1-X2 discovered after the end of the reporting period but before the date of approval of financial statements for 20X3-X4 is an adjusting event?

9. X Ltd. was having investment in form of equity shares in another company as at the end of the reporting period, i.e., 31st March, 20X2. After the end of the reporting period but before the approval of the financial statements it has been found that value of investment was fraudulently inflated by committing a computation error. Whether such event should be adjusted in the financial statements for the year 20X1-X2?

Answers

1. As per Ind AS 10, even if partial information has already been published, the reporting period will be considered as the period between the end of reporting period and the date of approval of financial statements. In the above case, the financial statements were approved on 15th July, 20X2. Therefore, for the purposes of Ind AS 10, ‘after the reporting period’ would be the period between 31st March, 20X2 and 15th July, 20X2.
2. As per Ind AS 10, even favourable events need to be considered. What is important is whether a condition exists as at the end of the reporting period and there is evidence for the same.

3. As per Ind AS 10, the decrease in the net realisable value of the stock after reporting period should normally be considered as an adjusting event.

4. In the instant case, the execution of work started during the F.Y. 20X1-X2 and the Rocky surface was there at the end of the reporting period, though the existence of rocky surface is confirmed after the end of the reporting period as a result of which it became evident that the cost may escalate by Rs. 50 Crores. In accordance with the definition of 'Events after the Reporting Period', since the rocky surface was there, the condition was existing at the end of the reporting period, therefore, it is an adjusting event. The cost of the project and profit should be accounted for accordingly.

5. In the instant case, A Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because A Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator. Therefore, it is an adjusting event. Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period. As far as the recovery of the cost by A Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain. In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 20X2-X3.

Accordingly, the recovery of cost should be recognised in the financial year 20X2-X3.

6. In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty draw back but the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback is discretionary in the hands of the Department. Accordingly, the duty drawback credit is a contingent asset as at the end of the reporting period, which may be realised if the Department credits the same.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.
certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

In accordance with the above, the duty draw back credit which was contingent asset for the F.Y. 20X1-X2 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 20X2-X3.

7. As per Ind AS 115, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

In the instant case, the condition that sales have been made exists at the end of the reporting period and the receipt of payment with 15 days time after the end of the reporting period and before the approval of the financial statements confirms that the discount is to be provided on those sales. Therefore, it is an adjusting event. Accordingly, XYZ Ltd. should adjust the sales made to ABC Ltd. with respect to discount of 5% on the list price of the goods.

8. In the instant case, the fraud is discovered after the end of the reporting period of 20X3-X4, which related to F.Y. 20X1-X2. Since the fraud has taken place before the end of the reporting period, the condition was existing which has been confirmed by the detection of the same after the end of the reporting period but before the approval of financial statements. Therefore, it is an adjusting event.

Moreover, Ind AS 10 in paragraph 9, specifically provides that the discovery of fraud or error after the end of the reporting period, that shows that financial statements are incorrect, is an adjusting event. Such a discovery of fraud should be accounted for in accordance with Ind AS 8, if it meets the definition of prior period error.

9. Since it has been detected that a fraud has been made by committing an intentional error and as a result of the same financial statements present an incorrect picture, which has been detected after the end of the reporting period but before the approval of the financial statements. The same is an adjusting event. Accordingly, the value of investments in the financial statements should be adjusted for the fraudulent error in computation of value of investments.