TOPIC 33

# INDAS - 10
# Events After the Reporting Period

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Quote:- Keep going ... Difficult roads can lead to beautiful destination

## MEANING

Events after the reporting period are the period between the end of the reporting period and the date when the financial statements are approved.

### Example

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

**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.

### Should the company report only unfavorable events?

The standard clearly states that events can be favorable as well as unfavorable.

### Types of Events as per INDAS – 10:

For accounting treatment Events are classified into two categories:

## ADJUSTING EVENT

**Those that provide Evidence of Conditions that Existed at the end of the Reporting Period.**

The events related to circumstances/conditions existed on Balance sheet date.

**Examples:**

- Settlement of litigation against the entity after the reporting date, in respect of events that occurred before the end of reporting period, may provide **evidence** of existence and amount of liability at the reporting date.
- Declaration of bankruptcy by a long outstanding receivable after the reporting date my provide evidence that receivable was **impaired** at the reporting date.
- Detection of Fraud or Errors after reporting period may indicate that the financial statements are misstated.
- Entity A values its inventory 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 Rs 500. All these items are sold subsequently at Rs 450 per piece. The sale of inventories after the reporting period provides evidence about their net realisable value at the end of the reporting period.
- The discovery of fraud or errors that show that the financial statements are incorrect.

Ind AS 8, deals with errors and frauds separately alongwith the errors that occurred in the previous period. However, Ind AS 10, focuses on the errors or frauds those are revealed after reporting period. In any case, the entity is not supposed to present any misstatement, to the stakeholders, in spite of knowing that it is not true. Therefore, if any error or any fraud is detected after the reporting period, which is related to the reporting period, then company must adjust the accounts and rectify the error.

- 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 unless the year is closed, one cannot determine the amount of profit. Unless one determines the final amount of profit, one cannot finalise the amount of profit sharing as both the things are interconnected. Therefore, such events must be considered for the adjustments in accounts, provided, the contract already exists on the last day of reporting period.

## NON-ADJUSTING EVENT

**Those that are Indicative of conditions that arose after the reporting period.**

The events not related to circumstances/conditions existed on Balance sheet date; in other words entirely new events after the BS date (Non Adjusting Events). For e.g. *decline in the market values of investments.*

**Examples:**

- Destruction of Assets of the entity by floods occurring after the reporting period does not indicate that the assets of the entity were impaired at the end of reporting period.
- Initiation of litigation against the company arising out of events that occurred after the reporting period does not indicate the existence of liability at the reporting date.
- Decline in the market value of investments after the reporting period does not provide evidence that the investments were impaired at the end of reporting period.

# ACCOUNTING TREATMENT

## ADJUSTING EVENTS:

(1) To adjust the amounts recognised in the financial statement; or

(2) to recognize items that were not previously recognised.

Example: Loss should be accounted, Provision should be made

## NON ADJUSTING EVENTS:

These events should be disclosed in the Financial Statements (by way of Notes to Accounts), no adjustment in accounts is required.

## Dividend Proposed after the Reporting Period & Going Concern:

| Proposed Dividend | Going Concern |
|---|---|
| Always treated as Non-adjusting event.<br><br>Proposed dividend shall not be recognised as liability at the end of reporting period. | If after the Balance Sheet date, entity's going concern assumption is no longer appropriate then it should adjust Assets and Liabilities.<br><br>AS 4 does not require any disclosure. However AS Irequires the disclosure of the fact in case of going concern assumption is not followed. |

# DIFFERENCES BETWEEN ADJUSTING & NON-ADJUSTING EVENT

**The major difference between the adjusting event and non-adjusting events are as follows**

| Sr. No. | Particular | Adjusting | Non Adjusting |
|---|---|---|---|
| 1 | Timing of the event | During or on the end of the reporting financial year | After the reporting financial year |
| 2 | Legality | There is an evidence | It may be just indicative |
| 3 | Accounting treatment | Adjust the amounts of reporting financial statements | Do not adjust the amounts of reporting financial statements |
| 4 | Disclosure | Yes | Yes |

### Q448. (ICAI)

A case is going on between ABC & Co and Tax department on claiming the exemption for certain goods, for the year 20X1-20X2. The court has issued the order on 15th April and rejected the claim of the company. Accordingly, company is liable to pay the additional tax. Shall company account for such tax in the year 20X1-20X2 or shall it account for in the years 20X2-20X3?

**Solution**

To decide whether, the event is adjusting or not adjusting two conditions need to be satisfied,

(a) There has to be evidence

(b) The event must have been related to period ending on reporting date.

Here both the conditions are satisfied. Court order is conclusive evidence and the liability is related to earlier year. Therefore, the event will be considered as adjusting event and accordingly the amounts will be adjusted in accounts.

### Q449. (ICAI)

Company has 100 finished cars on 31st March, 20X2, which is having a cost of Rs 4,00,000 each. On 30th of April, new guidelines of pollution control are implemented (which was already expected to come) and as per the new government rules, the cars which do not satisfy the conditions of using new engines which emit less carbon-di-oxide are totally banned for the sale. Therefore, the demand for such cars drops drastically and selling price came down to Rs 3,00,000. The accounts of the company for the year 20X1-20X2 are not yet approved. Shall company value its stock at Rs 4,00,000 each or shall it value at Rs 3,00,000 each?

**Solution**

Since the changed conditions provide the evidence about the net realizable value of the cars and therefore the amount of Rs 3,00,000 should be considered for the valuation of stock.

### Q450. (ICAI)

ABC Ltd. has purchased the 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, has not yet submitted the final bills for the same.

The supplier company sent the bills on 10th April 20X2, when the accounts were not yet approved. Shall the company include the amount of capitalization in the year 20X1-20X2 or in the year 20X2-20X3?

**Solution**

As per the above provisions, the cost of installation and training of new machine was 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 will be considered for the year 20X1-20X2.

## Q451. (ICAI)

ABC Co 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 accounts of the company are approved on 20th July 20X2 for the financial year ending 31st March 20X2. State, whether the dividend will be accounted in F.Y. 20X2-20X3 or will it be considered as proposed dividend and accounted in the year 20X1-20X2?

**Solution**

As per the interpretation of the provision of Ind AS 10, the dividend is declared in the year 20X2-20X3. Therefore, the event did not exist on the end date of reporting period i.e. on 31st March 20X2. Therefore, it will be accounted in the year 20X2-20X3 and not in 20X1-20X2, even if accounts of 20X1-20X2 were approved after the declaration of dividend.

**Student Notes:-**

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