

# CHAPTER - 7

## Ind AS 10: Events after the Reporting Period

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### Question 1

While preparing its financial statements for the year ended 31<sup>st</sup> 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 ₹ 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. Assume that the financial statements are approved by the approving authority after April 20X1. Can XYZ Ltd. provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31<sup>st</sup> March, 20X1?

Would the answer be different if earthquake had taken place after 31<sup>st</sup> 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?

### Answer

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 in February 20X1** (i.e. before the end of the reporting period). 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 31<sup>st</sup> March, 20X1. In this case, since the financial statements are approved by the approving authority after April 20X1, 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 31<sup>st</sup> 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 without taking cognizance of 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, their non-disclosure could influence the economic decisions that users make based on 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.

**Question 2**

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 ₹ 5 lakhs to ABC Ltd. between 17<sup>th</sup> March, 20X2 and 31<sup>st</sup> March, 20X2. ABC Ltd. paid the dues by 15<sup>th</sup> April, 20X2 with respect to sales made between 17<sup>th</sup> March, 20X2 and 31<sup>st</sup> March, 20X2. Financial statements were approved for issue by Board of Directors on 31<sup>st</sup> May, 20X2.

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

**Answer**

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.

**Question 3**

ABC Ltd., has purchased a new machinery during the year 20X1-20X2. The asset was finally installed and made ready for use on 15<sup>th</sup> 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 10<sup>th</sup> 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?

**Answer**

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**.

**Question 4**

XY Ltd had taken a large-sized civil construction contract, for a public sector undertaking, valued at ₹ 200 Crores. The execution of the project started during 20X1-20X2, and continued in the next financial year also. During execution of the work on 29<sup>th</sup> May, 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 ₹ 50 crore, which would not be recoverable from the contractee as per the terms of the contract. The Company's financial year ended on 31<sup>st</sup> March, 20X2, and the financial statements were considered and approved by the Board of Directors on 15<sup>th</sup> June, 20X2. How will you treat the above in the financial statements for the year ended 31<sup>st</sup> March, 20X2?

**Answer**

In the instant case, the execution of work started during the financial year 20X1-20X2 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 reporting period as a result of which it became evident that the cost may escalate by ₹ 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.

**Question 5**

ABC Ltd. received a demand notice on 15<sup>th</sup> June, 20X2 for an additional amount of ₹ 28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same in respect of transactions related to financial year 20X1-20X2. The financial statements for the year 20X1-20X2 are approved on 10<sup>th</sup> August, 20X2. In July, 20X2, the company has appealed against the demand of ₹ 28,00,000 and the company has expected that the demand would be settled at ₹ 15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 20X1-20X2. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

**Answer**

**Ind AS 10** defines 'Events after the Reporting Period' as follows:

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 by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)

In the instant case, the demand notice has been received on 15<sup>th</sup> June, 20X2, which is between the end of the reporting period and the date of approval of financial statements. Therefore, it is an event after the reporting period. This demand for additional amount has been raised because of higher rate of excise duty levied by the Excise Department in respect of goods already manufactured during the reporting period. Accordingly, condition exists on 31<sup>st</sup> March, 20X2, as the goods have been manufactured during the reporting period on which additional excise duty has been levied and this event has been confirmed by the receipt of demand notice. Therefore, it is an **adjusting event**.

In accordance with the principles of **Ind AS 37**, the company should make a provision in the financial statements for the year 20X1-20X2, at best estimate of expenditure to be incurred, i.e., ₹ 15,00,000.

**Question 6**

Discuss the following situations as per Ind AS 10:

- i. The financial statements of a Company for the year 20X1-20X2 are approved by the management

and were sent on 5<sup>th</sup> June, 20X2 for review and approval to its supervisory board i.e., Board of Directors. The supervisory board approves the financial statements on 26<sup>th</sup> June, 20X2. The financial statements are then made available to shareholders on 4<sup>th</sup> July, 20X2. The financial statements are approved by shareholders in their annual general meeting on 18<sup>th</sup> August, 20X2 and then filed with Ministry of Corporate Affairs (MCA) on 19<sup>th</sup> August, 20X2. Determine & discuss the date on which financial statements were approved.

- ii. A Company is in litigation with Income Tax Department with respect to allowability of certain exemptions for financial year 20X1-20X2. No provision for tax has been made for disallowances of exemptions as the Company was under bonafide belief based on a legal opinion that it will succeed in litigation. On 21<sup>st</sup> April, 20X6, the Hon'ble Supreme Court rejected the Company's claim. The Order is received on 30<sup>th</sup> April, 20X6. The financial statements for the financial year 20X5-20X6 of the Company are yet to be approved. The earlier year's financial statements stand approved. Advise in financial statements of which financial year the impact of the Order of the Hon'ble Supreme Court should be recognized.
- iii. Z Limited while preparing its financial statements on 31<sup>st</sup> March, 20X1 made a provision for doubtful debts @ 6% on accounts receivables. In the last week of January, 20X1, a debtor for ₹ 3 lakhs had suffered heavy loss due to fire; the loss was not covered by any insurance policy. Z Limited, considering the event of fire made a provision @ 60% of the amount receivables from that debtor apart from the general provision @ 6% on remaining debtors. The same debtor was declared insolvent on 10<sup>th</sup> April, 20X1. The financial statements have not yet been approved. You are required to suggest whether the company should provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31<sup>st</sup> March, 20X1.
- iv. D Limited acquired equity shares of another company on 1<sup>st</sup> March, 20X1 at a cost of ₹ 28 lakhs. The fair market value of these shares on 31<sup>st</sup> March, 20X1 was ₹ 35 lakhs and the company measured it at ₹ 35 lakhs (assume that it is classified as FVTOCI as per Ind AS 109 and change in fair value is transferred to 'fair value fluctuation reserve'). Due to market conditions subsequent to the reporting date, the value of investments drastically came down to ₹ 20 lakhs. The financial statements have not yet been approved. You are required to suggest whether D Limited should value the investments at ₹ 35 lakhs or ₹ 20 lakhs as on 31<sup>st</sup> March, 20X1.
- v. Tanmay Limited was in negotiation with Varun Limited from 1<sup>st</sup> December, 20X1 to acquire land for ₹ 5.00 crores. The negotiations were concluded in first week of April 20X2. The transaction was completed by last week of April 20X2. In which financial year, the purchase of land should be recognized?

### **Answer**

- i. As per Ind AS 10, in the case of a company, the financial statements will be treated as approved when board of directors approves the same. Hence in the given case, the financial statements are approved for issue on **26<sup>th</sup> June, 20X2 (date of approval by the Board of Directors for issue of financial statements to the shareholders)**.
- ii. 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. Court order received after the reporting period (but before the financial statements are approved) provides evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an **adjusting event** and, accordingly, **amount will be adjusted in financial statements for the financial year 20X5-20X6.**

- iii. In the instant case, the fire took place in January, 20X1 (i.e. before the end of the reporting period). Therefore, the condition existed 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 ₹ 3 lakhs should be made** to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended 31<sup>st</sup> March, 20X1.
- iv. 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 is a **non-adjusting event**. 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, D Limited should **value the investments at ₹ 35 lakhs** as on 31<sup>st</sup> March, 20X1.
- v. As per Ind AS 10, an entity should adjust the financial statements for the events that occurred after the reporting period, but before the financial statements are approved for issue, if those events provide evidence of conditions that existed at the end of the reporting period.

In this case, negotiations continued with Varun Limited to acquire land from 1<sup>st</sup> December, 20X1 till first week of April 20X2. Since on the reporting date, the condition was only on proposal state and transaction was completed on last week of April 20X2, the event will be considered as a **non-adjusting event** as per Ind AS 10. **Purchase of land should be recognized in the financial year 20X2-20X3.**

However, the same **may be disclosed in the Notes** to Accounts for due information to the users of the financial statements.

### Question 7

Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of Ind AS 10.

- (i) Moon Ltd. won an arbitration award on 25<sup>th</sup> April, 20X1 for ₹ 1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements for the year ending 31.03.20X1 on 1<sup>st</sup> May, 20X1. The management did not consider the effect of the above transaction in Financial Year 20X0-20X1, as it was favourable to the Company and the award came after the end of the financial year.
- (ii) Zoom Ltd. has a trading business of Mobile telephones. The Company has purchased 1,000 mobiles phones at ₹ 5,000 each on 15<sup>th</sup> March, 20X1. The manufacturers of phone had announced the release of the new version on 1<sup>st</sup> March, 20X1 but had not announced the price. Zoom Ltd. has valued inventory at cost of ₹ 5,000 each at the year ending 31<sup>st</sup> March, 20X1.  

Due to arrival of new advance version of Mobile Phone on 8<sup>th</sup> April, 20X1, the selling prices of the mobile stocks remaining with Company was dropped at ₹ 4,000 each. The directors approved the financial statements for the year ending 31.03.20X1 on 1<sup>st</sup> May, 20X1.

The financial statements of the company valued mobile phones at ₹ 5,000 each and not at ₹ 4,000 less expenses on sales, as the price reduction in selling price was affected after 31.03.20X1.
- (iii) There as an old due from a debtor amounting to ₹ 15 lakh against whom insolvency proceedings was instituted prior to the financial year ending 31<sup>st</sup> March, 20X1. The debtor was declared insolvent on 15<sup>th</sup> April, 20X1. The directors approved the financial statements for the year ending 31.03.20X1 on 1<sup>st</sup> May, 20X1.

- (iv) Assume that subsequent to year end and before financial statements are approved, Company's management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is no formal plan yet. Should management recognise a provision in the books, if the company decides subsequent to end of the accounting year to restructure its operations?

**Answer**

**As per Ind AS 10, the treatment of stated issues would be as under:**

**(i) Adjusting event:**

It is an adjusting event as it is 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. Even though winning of award is favorable to the company, it should be **accounted in its books as receivable** since it is an adjusting event.

**(ii) Adjusting event:**

The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period, hence it is an adjusting event as per Ind AS 10. Zoom Limited should **value its inventory at ₹ 40,00,000.**

**(iii) Adjusting event:**

As per Ind AS 10, 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.

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. Hence, appropriate **provision must be made for ₹ 15 lakh.**

**(iv) Non-adjusting event:**

Announcing or commencing the implementation of a major restructuring after reporting period is a non-adjusting event as per Ind AS 10. Though this is a non-adjusting event occurred after the reporting period, yet it would result in **disclosure** of the event in the financial statements, **if restructuring is material.**

This would not require provision since as per Ind AS 37, decision to restructure was not taken before or on the reporting date. Hence, it does not give rise to a constructive obligation at the end of the reporting period to create a provision.

**Question 8**

On 5<sup>th</sup> April, 20X2, fire damaged a consignment of inventory at one of the Jupiter Ltd.'s warehouse. This inventory had been manufactured prior to 31<sup>st</sup> March, 20X2 costing ₹ 8 lakhs. The net realisable value of the inventory prior to the damage was estimated at ₹ 9.60 lakhs. Because of the damage caused to the consignment of inventory, the company was required to spend an additional amount of ₹ 2 lakhs on repairing and re-packaging of the inventory. The inventory was sold on 15<sup>th</sup> May, 20X2 for proceeds of ₹ 9 lakhs.

The accountant of Jupiter Ltd treats this event as an adjusting event and adjusted this event of causing

the damage to the inventory in its financial statement and accordingly re-measures the inventories as follows: ₹ lakhs

Cost	8.00
Net realisable value (9.6 - 2)	7.60
<b>Inventories (lower of cost and net realisable value)</b>	<b>7.60</b>

Analyse whether the above accounting treatment made by the accountant in regard to financial year ending on 31<sup>st</sup> March, 20X2 is in compliance of the Ind AS. If not, advise the correct treatment alongwith working for the same.

Note: Present all amounts in ₹ lakh

**Answer**

The above treatment needs to be examined in the light of the provisions given in Ind AS 10 ‘Events after the Reporting Period’ and Ind AS 2 ‘Inventories’.

Para 3 of **Ind AS 10** ‘Events after the Reporting Period’ defines ‘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 by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Further, paragraph 10 of Ind AS 10 states that, “An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period”.

Further, paragraph 6 of **Ind AS 2** defines, “Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”.

Further, paragraph 9 of Ind AS 2 states that, “**Inventories shall be measured at the lower of cost and net realisable value**”.

Accountant of Jupiter Ltd. has re-measured the inventories after adjusting the event in its financial statement which is not correct and nor in accordance with provision of Ind AS 2 and Ind AS 10.

Accordingly, the event causing the **damage to the inventory occurred after the reporting date** and as per the principles laid down under Ind AS 10 ‘Events After the Reporting Date’ is a **non-adjusting event** as it does not affect conditions at the reporting date. Non-adjusting events are not recognised in the financial statements, but are disclosed where their effect is material.

Therefore, as per the provisions of Ind AS 2 and Ind AS 10, the consignment of **inventories shall be recorded in the Balance Sheet at a value of ₹ 8 Lakhs** calculated below: ₹ lakhs

Cost	8.00
Net realisable value	9.60
<b>Inventories (lower of cost and net realisable value)</b>	<b>8.00</b>

**Question 9**

H Ltd. constructed a warehouse at a cost of ₹ 10 lakhs in 20X1. It first became available for use by H Ltd. on 1<sup>st</sup> January 20X2. On 29<sup>th</sup> January 20X6, H Ltd. discovered that its warehouse was damaged. During early February 20X6, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27<sup>th</sup> January 20X6. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31<sup>st</sup> December 20X5. This estimate was ₹ 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31<sup>st</sup> December, 20X5. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31<sup>st</sup> December, 20X5 were approved for issue by the Board of Directors on 28<sup>th</sup> February, 20X6.

You are required to:

- (i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31<sup>st</sup> December, 20X5.
- (ii) Discuss disclosure requirement in above case as per relevant Ind AS.
- (iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31<sup>st</sup> December, 20X5?

**Answer**

**(i) Journal Entries on 31<sup>st</sup> December 20X5**

	₹	₹
Depreciation expense A/c (W.N.1) <span style="float: right;">Dr.</span> To Warehouse A/c (Being additional depreciation expense recognised for the year ended 31 <sup>st</sup> December 20X5 arising from the reassessment of the useful life of the warehouse)	19,608	19,608
Impairment loss A/c (W.N.2) <span style="float: right;">Dr.</span> To Warehouse A/c (Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31 <sup>st</sup> December 20X5)	2,47,059	2,47,059

- (ii) (a) **The damage to warehouse is an adjusting event** (occurred after the end of the year 20X5) for the reporting period 20X5, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 20X5 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg regarding estimate of useful life, assessment of impairment indicators etc) and had not affected the financials of prior years.

- (b) **Damage of inventory** due to seepage of rainwater ₹ 1,00,000 occurred during the year 20X6. It is a **non-adjusting event** after the end of the 20X5 reporting period since the inventory was in good condition at 31<sup>st</sup> December 20X5. Hence, no adjustment has been done for it in the year 20X5.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. ₹ 1,00,000 loss) in the notes to its 31<sup>st</sup> December 20X5 annual financial statements.

- (iii) If the damage to the warehouse had been caused by an event that occurred after 31<sup>st</sup> December 20X5 and was not due to structural fault, then it would be considered as a **non-adjusting event** after the end of the reporting period 20X5 as the warehouse would have been in a good condition at 31<sup>st</sup> December 20X5.

**Working Notes:**

1. Calculation of additional depreciation to be charged in the year 20X5  
Original depreciation already charged during the year 20X5 = ₹ 10,00,000/30 years = ₹ 33,333  
Carrying value at the end of 20X4 = 10,00,000 - (₹ 33,333 x 3 years) = ₹ 9,00,000  
Revised depreciation = 9,00,000/17 years = ₹ 52,941  
Additional depreciation to be recognised in the year 20X5 = ₹ 52,941 - ₹ 33,333 = ₹ 19,608
2. Calculation of impairment loss in the year 20X5  
Carrying value after charging depreciation for the year 20X5 = ₹ 9,00,000 - ₹ 52,941 = ₹ 8,47,059  
Recoverable value of the warehouse = ₹ 6,00,000  
Impairment loss = Carrying value - Recoverable value = ₹ 8,47,059 - ₹ 6,00,000 = ₹ 2,47,059

**Question 10**

ABC Ltd., declares the dividend on 15<sup>th</sup> July, 20X2 as the results of year 20X1-20X2 as well as Q1 ending 30<sup>th</sup> June, 20X2 are better than expected. The financial statements of the company are approved on 20<sup>th</sup> July, 20X2 for the financial year ending 31<sup>st</sup> 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?

**Answer**

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 31<sup>st</sup> 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.

**Question 11**

In the plant of PQR Ltd., there was a fire on 10<sup>th</sup> May, 20X1 in which the entire plant was damaged and the loss of ₹ 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of ₹ 27,00,000 is expected.

The financial statements for the year ending 31<sup>st</sup> March, 20X1 were approved by the Board of Directors on 12<sup>th</sup> June, 20X1. Show how should it be disclosed?

**Answer**

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. 20X0-20X1 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<sup>st</sup> March, 20X1.

**Question 12**

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 23<sup>rd</sup> 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 31<sup>st</sup> December 20X5. The financial statements for the financial year 20X4-20X5 have been approved by the Board of Directors on 10<sup>th</sup> July, 20X5. Whether it is appropriate to prepare financial statements on going concern basis?

**Answer**

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 basis of accounting, rather than adjustment to amounts recognised within 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 31<sup>st</sup> December, 20X5 and it is confirmed on 23<sup>rd</sup> April, 20X5**, (i.e., after the end of reporting period and before the approval of the financial statements), **that no further contact is secured, it implies that the entity's operations are expected to come to an end by 31<sup>st</sup> December, 20X5**. 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, entity determines that it has no realistic alternative of continuing the business, **preparation of financial statements for 20X4-20X5 and thereafter going concern basis may not be appropriate**.