UNIT 2: INDIAN ACCOUNTING STANDARD 10: EVENTS AFTER THE REPORTING PERIOD

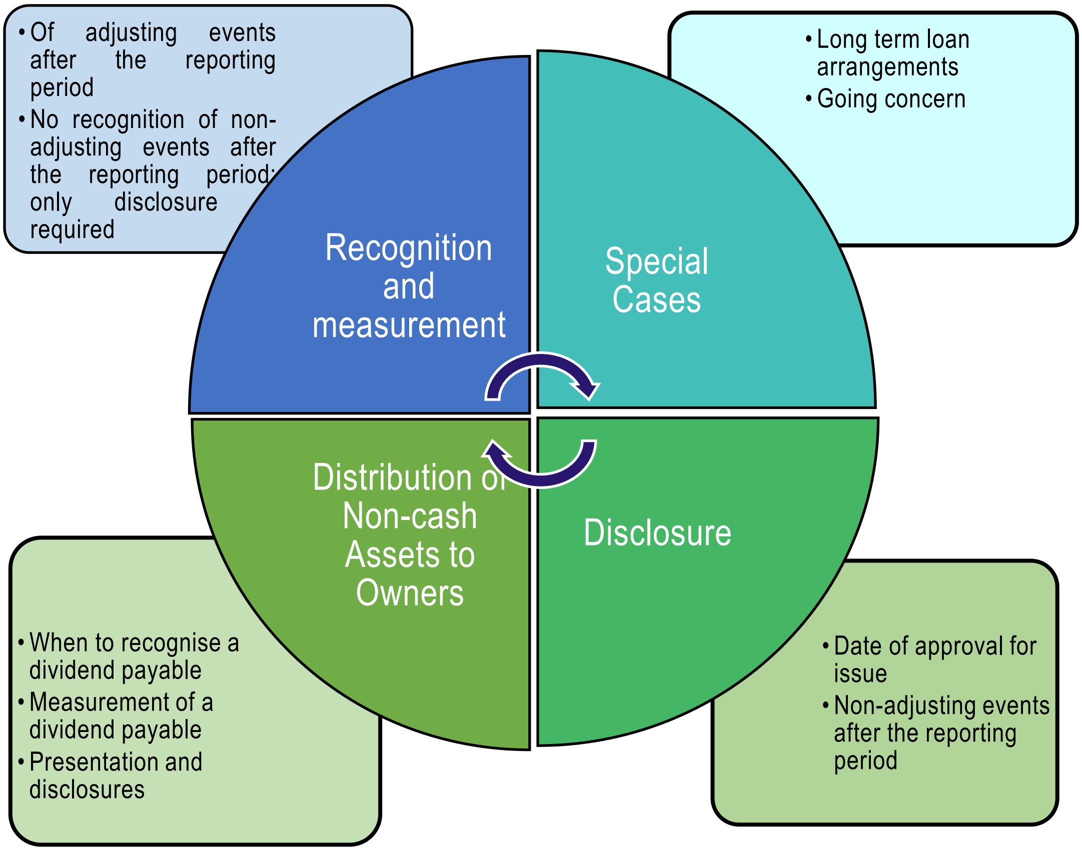
LEARNING OUTCOMES

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.
- Recommend the accounting treatment for special cases like dividend, going concern, long-term loan arrangements.

UNIT OVERVIEW

IND AS 10



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 preparation of the financial statement and making it available to the public? If the company is aware of the facts and is still not disclosing the same, it may mislead the users.

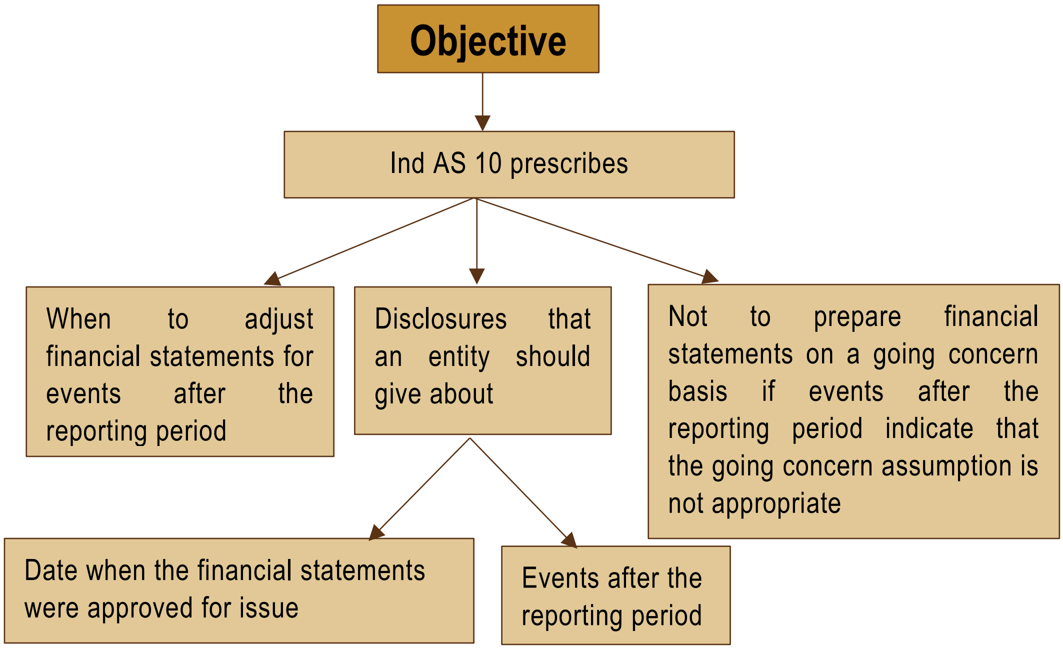
Ind AS 10 deals with such events and provides guidance about its treatment in the financial statements.

2.2 OBJECTIVE

The objective of this standard is to prescribe.

1. When an entity should adjust its financial statements for the events after the reporting period.
2. **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.

The standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is no longer appropriate.

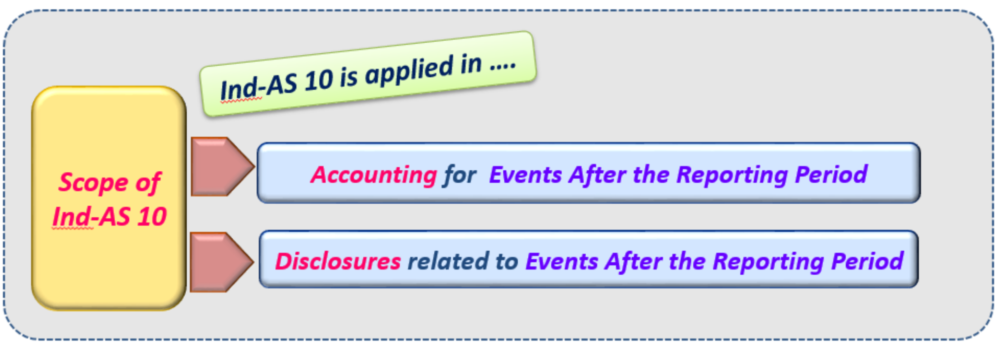


2.3 SCOPE

The Standard -shall be applied in:

1. **Accounting** for events after reporting period; and

2 . **Disclosure** of events after the reporting period.

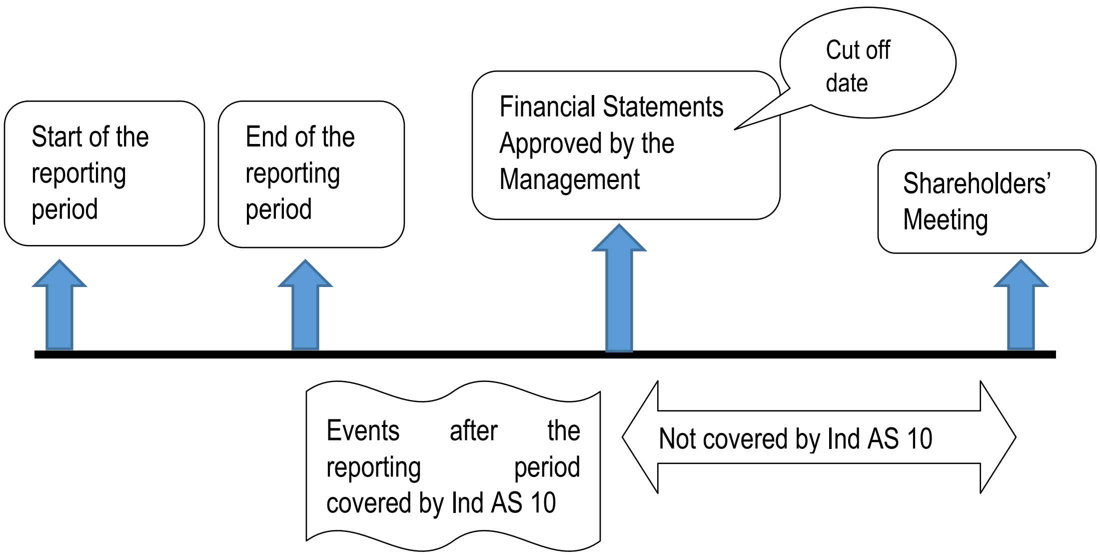


2.4 DEFINITIONS AND EXPLANATIONS

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 by the Board of Directors (in case of a company) and by the corresponding approving authority (in case of any other entity) for issue. This is depicted in the below chart:



Example 1

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

Now the question arises that 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 an approving authority? If there is a hierarchy of approvals, at what level one can assume that the financial statements are approved?

What is the date of approval of financial statements?

It is worthwhile to note that the process involved in approving the financial statements for issue will vary depending upon the (a) management structure, (b) statutory requirements and (c) procedures followed in preparing and finalising the financial statements.

This standard prescribes,

(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.

It is pertinent to note that in some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been approved by the Board for issue. In such cases, as per paragraph 5 of Ind AS 10, even though shareholders' approval is needed, yet, for the purpose of deciding the events after the reporting period, the date of approval of financial statements will be considered as the date of approval by the board of directors only.

Example 2

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 is 5th May, 20X1 in accordance with the standard.

Likewise, 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, as per paragraph 6 of Ind AS 10, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

Example 3

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.

Illustration 1

What is the date of approval for issue of the financial statements prepared for the reporting period from 1st April, 20X1 to 31st March, 20X2, in a situation where following dates are available? Completion of preparation of financial statements 28th May, 20X2 Board reviews and approves it for issue 19th June, 20X2.

Available to shareholders	*1st July, 20X2*
Annual General Meeting	*15th September, 20X2*
Filed with regulatory authority	*16th October, 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., 19th June, 20X2.

If the 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.

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Illustration 2

ABC Ltd. prepared interim financial report for the quarter ending 30th June, 20X1. The interim financial report was approved for issue by the Board of Directors on 15th July, 20X1. Whether events occurring between end of the interim financial report and date of approval by Board of Directors, i.e., events between 1st July, 20X1 and 15th July, 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 30th June, 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 provisions of 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 1st July, 20X1 and 15th July, 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 30th June, 20X1.

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Illustration 3

The Board of Directors of ABC Ltd. approved the financial statements for the reporting period 20X1-20X2 for issue on 15th June, 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 30th June, 20X2. What is the date of approval for issue as per Ind AS 10 in the given case?

Solution

As per paragraph 3 of Ind AS 10, the – 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 30th June, 20X2.

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2.4.4 Should the company report only unfavourable events?

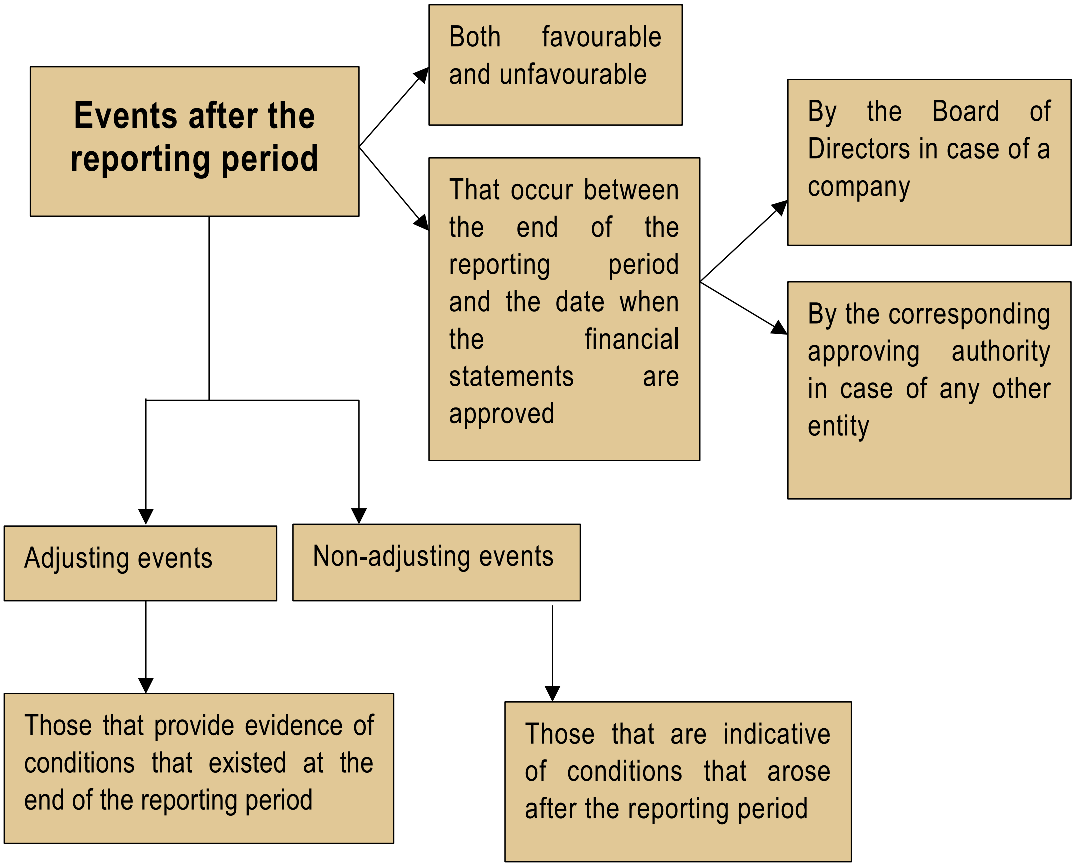
The standard clearly states that events after reporting period can be favourable as well as unfavourable. Accordingly, an entity should report both favourable as well as unfavourable events after the reporting period.

2.5 TYPES OF EVENTS

The 'events after the reporting period' are classified into two categories

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



Ind AS 10 Carve Out: 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.**

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 issued the order on 15th April, 20X2 and rejected the claim of the company. Accordingly, the company is liable to pay 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 (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, the amounts will be adjusted in financial statements for 20X1-20X2.

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(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 4

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 ₹ 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 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 31st March, 20X1. In this case, assuming that 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 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 – 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.

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(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 cases, where inventories are valued at net realisable value (and not 'at cost'), the estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. However, when the inventories are actually sold during the period after the reporting date (but before approval of financial statements), the selling price of the actual sale transaction provides the evidence of net realisable value *provided* the market conditions remains unchanged. In contrast, if a change in the market conditions occur (say, due to surplus production, additional import, etc.), then the resultant changes to the selling price of inventories do not reflect the conditions that existed on the reporting date (when the inventories were valued).

Example 5

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 cost ₹ 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

The 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.

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(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 6

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.

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(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.

If any error or any fraud related to the reporting period is detected after the reporting period (but before approval of the financial statements), then the entity must adjust the financial statements appropriately by rectifying the same. This is because such fraud and errors provide evidence that the financial statements are *not correct as at the reporting date.* Discovery of such fraud and errors are adjusting events under Ind AS 10

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 as required under paragraph 21 of Ind AS 10.

Recognition, Measurement and Disclosure

Adjusting events after the reporting period

Adjust the amounts recognised in the financial statements to reflect it

Non-adjusting events after the reporting period

Do not adjust the amounts recognised in the financial statements to reflect it

If non-adjusting events after the reporting period are material, then **disclose**

- the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

2.8 SPECIAL CASES

2.8.1 Long-term Loan Arrangements

Notwithstanding anything contained in the definition of adjusting events and non-adjusting events in paragraph 3 of Ind AS 10, 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 7

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.

In this case, 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 paragraph 3 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 paragraph 3 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 8

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, in spite 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 financial year 20X4-20X5 have been approved by the Board of Directors on 10th July, 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, it implies that the entity's operations are expected to come to an end by 31st 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, the 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.

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Illustration 9

In the plant of PQR Ltd., there was a fire on 10th 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 31st March, 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 material 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 financial year 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 31st March, 20X1.

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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 to accounts in 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 was 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.

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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 is not relevant for its recognition.

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2.10 DISCLOSURE REQUIRED UNDER IND AS 10

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 reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements., which provide financial information about a specific reporting entity. 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 generally 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.

Important points to remember

S.No.	Item	Timing	Treatment	Reason
1.	Dividends	Declared after the reporting period but before approval of financial statements	• Do not recognise it as a liability at the end of the reporting period. • Disclosed in the notes to accounts	No obligation exists at that time
2.	Going concern	If management determines after the reporting period either that it intends to liquidate the entity or to cease trading	• Do not prepare the financial statements on a going concern basis; or • Make necessary disclosure of not following going concern basis or events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern	The deterioration in operating results and financial position after the reporting period may be so pervasive that it may require a fundamental change in the basis of accounting

3.	Date of approval of financial statements for issue	Approved after the reporting period	Disclose the date when the financial statements were approved for issue **and** who gave that approval	Important for users to know when the financial statements were approved for issue because the financial statements do not reflect events after this date
4.	Updating disclosure about conditions at the end of the reporting period	Received information after the reporting period	Update disclosures that relate to new information / conditions	When the information does not affect the amounts that it recognises in its financial statements, disclosures are required

An extract from the annual report of JSW Steel Limited for the year ended 31st March, 2021:

53. Subsequent events

a) On 21 May 2021, the board of directors recommended a final dividend of ₹ 6.50 (Rupees six and paise fifty only) per equity share of ₹ 1 each to be paid to the shareholders for the financial year 2020-21, which is subject to approval by the shareholders at the Annual General Meeting to be held on 21 July 2021. If approved, the dividend would result in cash outflow of ₹ 1,571 crores.

b) On 13 April 2021, JSW Steel Italy S.r.L, a wholly owned subsidiary of the Company completed the acquisition of remaining 840,840 equity shares, representing 30.73% equity share capital of GSI Luchini S.p.A. for a consideration of EUR 1 million. Consequent to this, GSI Luchini S.p.A. has become a wholly owned subsidiary of the Company.

2.11 DISTRIBUTION OF NON-CASH ASSETS TO OWNERS

Sometimes an entity distributes non-cash assets as dividends to its equity shareholders, acting in their capacity as owners. In those situations, an entity may also give equity shareholders a choice of receiving either non-cash assets or a cash alternative.

It may be recalled that paragraph 107 of Ind AS 1, *inter alia*, requires an entity to present the amount 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 of this Appendix 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 Issues addressed by Appendix A to Ind AS 10

- When an entity declares a distribution (and hence, has an obligation to distribute the assets concerned to its owners), it must recognise a liability for the dividend payable.
- Accordingly, this Appendix addresses the following three questions:
  - **When** should the entity recognise the dividend payable?
  - **How** should an entity measure the dividend payable? and
  - When an entity settles the dividend payable, **how** should it account for any difference between (a) the carrying amount of the assets distributed and (b) the carrying amount of the dividend payable?

These issues have been discussed in the subsequent paragraphs.

2.11.4 Accounting Principles enunciated by Appendix A to Ind AS 10

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.

2.11.4.1 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
- This 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.

2.11.4.2 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.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable.

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

2.11.4.3 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 EXTRACTS OF FINANCIAL STATEMENT OF LISTED ENTITIES

An extract from the annual report of JSW Steel Limited for the year ended March 31, 2021:

Subsequent Events

a) On 21 May 2021, the board of directors recommended a final dividend of ₹ 6.50 (Rupees six and paise fifty only) per equity share of ₹ 1 each to be paid to the shareholders for the financial year 2020-21, which is subject to approval by the shareholders at the Annual General Meeting to be held on 21 July 2021. If approved, the dividend would result in cash outflow of ₹ 1,571 crores.

b) On 13 April 2021, JSW Steel Italy S.R.L, a wholly owned subsidiary of the Company completed the acquisition of remaining 840,840 equity shares, representing 30.73% equity share capital of GSI Luchini S.P.A. for a consideration of EUR 1 million. Consequent to this, GSI Luchini S.P.A. has become a wholly owned subsidiary of the Company.

(Source: https://www.jswsteel.in/)

2.13 SIGNIFICANT DIFFERENCES BETWEEN IND AS 10 AND AS 4

S. No	Particulars	Ind AS 10	AS 4
	Title	**Events after the Reporting Period**	**Contingencies and Events Occurring After the Balance Sheet Date**
1.	***Material non adjusting events***	The standard requires material non-adjusting events to be disclosed in the financial statements.	AS 4 requires the same to be disclosed in the report of approving authority.
2.	***Impact on going concern of the entity***	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.	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.

		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

2.14 CARVE OUT IN IND AS 10 FROM IAS 10

Ind AS 10 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.

However, under IAS 10 '*Events after the Reporting Period',* an agreement with the lender *after the reporting period but before the approval of the financial statements for issue* not to demand payment (say, arising out of breach of loan covenants) is not considered as an adjusting event.

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Questions

1. The AGM of ABC Ltd for the year ended 31st March, 20X2 was held on 10th July, 20X2 and Board Meeting has been conducted on 15th May, 20X2. Meanwhile, the company had to disclose certain financial information pertaining to the year ended 31st March, 20X2 to SEBI as per SEBI regulations on 20th April, 20X2. Since, certain financial information pertaining to the year ended 31st March, 20X2 is submitted to SEBI before approval of financial statements by the Board, the management is suggesting that 20th April 20X2 shall be considered as 'after the reporting period'. Whether the management view is correct in accordance with the guidance given in Ind AS 10?

2. ABC Ltd. is in a legal suit against 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. trades 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 goes down 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 took 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 29th 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 crores, 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 a 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 20X1-20X2, which were approved in May, 20X2. The arbitrator, in April, 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 20X1-20X2?

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 the reporting period and the date of approval of financial statements. In the above case, the financial statements for the year 20X1-20X2 were approved on 15th May, 20X2. Therefore, for the purposes of Ind AS 10, 'after the reporting period' would be the period between 31st March, 20X2 and 15th May, 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 realizable value of the stock after the reporting period should normally be considered as an adjusting event.

4. 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 the 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.

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 financial year 20X2-20X3.

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