Chapter 23
Events occurring after the end of the reporting period

Objectives of this lecture
• Understand what constitutes an event occurring after the end of the reporting period
• Understand that, in the period between the end of the reporting period and the date the financial statements are authorised for issue, new information often becomes available that provides additional evidence of conditions that existed at the end of the reporting period, or reveals for the first time a condition that existed at the end of the reporting period, and that such new information must be reflected in the financial statements

Objectives (cont.)
• Understand that financial statements are often not released for over 10 weeks after the end of the reporting period, and that to make them more ‘relevant’ it is sometimes appropriate to add notes giving additional information about material events that have occurred since the end of the reporting period
• Be aware of the specific disclosure requirements stipulated in AASB 110 Events After the Reporting Period
Objectives (cont.)

- Know the difference between an adjusting event after the reporting period, and a non-adjusting event after the reporting period
- Be able to describe how dividends declared after the end of the reporting period should be disclosed
- Understand that an entity should not prepare its financial statements on the going-concern basis if events after the reporting period indicate that this basis is no longer inappropriate

What is an event after the reporting period?

- End of the reporting period
  - Often referred to as ‘reporting date’ or as ‘balance date’
  - End of the financial period (period is typically 12 months)
  - For most Australian companies reporting date is 30 June
- Date financial statements are authorised for issue
  - for companies: date the Directors’ Declaration is signed
  - for other entities: date of final approval of the report by the entity’s management or governing body

What is an event after the reporting period? (cont.)

- Event after the reporting period
  - those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue
- AASB 110 addresses:
  - the accounting treatment of events or transactions that occur or in respect of which information becomes available between the end of the reporting period and the date when the financial statements are authorised for issue
What is an event after the reporting period? (cont.)
• See Figure 23.1 (p. 782)

What is an event after the reporting period? (cont.)
• Time lag of many weeks or months between:
  – end of financial year, and
  – date that shareholders and other interested parties receive the financial statements
• Many material events can occur after the end of the reporting period but before the date the financial statements are authorised for issue
• Failure to disclose such events can render financial statements misleading

Types of after-reporting-period events
There are two basic types of after-reporting-date events requiring consideration (AASB 110)
1. Adjusting events after the reporting period
2. Non-adjusting events after the reporting period
Adjusting events after reporting period

- Adjusting events
  - Can be both favourable and unfavourable
  - Provide additional evidence of, or further elucidate, conditions existing at the end of the reporting period

- Financial statements are to reflect financial effect of events occurring after the end of the reporting period that:
  - provide additional evidence of conditions existing at the end of the reporting period, or
  - reveal for the first time a condition that existed at the end of the reporting period

Adjusting events after reporting period (cont.)

- AASB 110 requires:
  - adjustments to amounts recognised in financial statements to reflect adjusting events after the reporting period

- Additional information might become available to estimate more accurately year-end provisions
  - e.g. the settlement of a legal claim outstanding at the end of the reporting period

- New information might come to light revealing for the first time a condition existing at the end of the reporting period
  - e.g. the destruction of a building at a remote site

Adjusting events after reporting date (cont.)

- Other examples (AASB 110)
  - Receipt of information after the end of the reporting period that an asset was impaired at reporting date
  - Determination after the end of the reporting period of cost of assets purchased prior to year end
  - Determination after the end of the reporting period of amount of profit sharing or bonus payments
  - Discovery of fraud or errors showing that the financial statements are incorrect
Adjusting events after reporting date (cont.)

- Dividends proposed or declared after the end of the reporting period (AASB 110):
  - are not to be recognised as a liability in the statement of financial position (this is a departure from previous practice)
- In explaining the above requirements, paragraph 13 of AASB 110 states:
  - If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with AASB 101 Presentation of Financial Statements

Adjusting events after reporting date (cont.)

- If after reporting date there is an indication that the entity is no longer a going concern (AASB 110):
  - financial statements are no longer to be prepared on the going-concern basis—retrospective adjustments required
  - This is the case, whether or not, the entity was a going concern at the end of the reporting period
- That is, whilst the entity might have been a going concern at reporting date, if a significant event occurs between the end of the reporting period and the date the financial statements are authorised for issue that threatens the going concern assumption then adjustment will be required with the adjustment effectively being ‘back-dated’ to the reporting date
- Determining whether or not an entity is a going concern is dependent on a deal of professional judgment

Non-adjusting events

- Non-adjusting events:
  - Can be both favourable and unfavourable
  - Provide evidence about new conditions created after reporting date
- If an event is material of nature, it should be disclosed in the notes
- AASB 110, paragraph 10, stipulates:
  - An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period
Non-adjusting events (cont.)

- Some examples (AASB 110)
  - Major business combination or an entity disposing of a major subsidiary after the end of the reporting period
  - Announcing a plan to discontinue an operation in a subsequent period
  - Purchases of major assets after the end of the reporting period
  - Destruction of major production plant by fire after the end of the reporting period
  - Announcing or commencing major restructuring after the end of the reporting period
  - Major ordinary share transactions after the end of the reporting period

Decision tree for after-reporting-date events

- Review Figure 23.2 (p. 783)—see next slide

Figure 23.2—Determining the treatment of an event occurring after reporting date
Disclosure requirements

- ‘Adjusting events’ would be recognised in an entity’s financial statements either by (AASB 110):
  - being brought to account (if relating to an item that would be brought to account), or
  - being included by way of a note (if relating to an item that would be disclosed by way of a note, e.g. a contingent liability)

Disclosure requirements (cont.)

- For material ‘non-adjusting events’ an entity must disclose in the notes to the financial statements (AASB 110):
  - the nature of the event, and
  - an estimate of its financial effect, or
  - a statement that such an estimate cannot be made
- The Corporations Act contains further disclosure requirements

Summary

- The lecture considers various issues associated with events occurring after the reporting period
- After-reporting-period events are either adjusting events or non-adjusting events
- For adjusting events:
  - either adjust the financial statements (if material), or
  - disclose them in the notes
- For non-adjusting events:
  - disclose them in the notes (if material)