2009

IFRS Foundation: Training Material for the *IFRS® for SMEs*

Module 32 – Events after the End of the Reporting Period

IFRS™

IFRS Foundation: Training Material for the *IFRS® for SMEs*

including the full text of
Section 32 *Events after the End of the Reporting Period*
of the International Financial Reporting Standard (IFRS)
for Small and Medium-sized Entities (SMEs)
issued by the International Accounting Standards Board on 9 July 2009

with extensive explanations, self-assessment questions and case studies

IFRS Foundation®
30 Cannon Street
London EC4M 6XH
United Kingdom

Telephone: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Email:info@ifrs.org

Publications Telephone: +44 (0)20 7332 2730
Publications Fax: +44 (0)20 7332 2749
Publications Email: publications@ifrs.org
Web: www.ifrs.org

This training material has been prepared by IFRS Foundation education staff. It has not been approved by the International Accounting Standards Board (IASB). The training material is designed to assist those training others to implement and consistently apply the *IFRS for SMEs*. For more information about the IFRS education initiative visit http://www.ifrs.org/Use+around+the+world/Education/Education.htm.

IFRS Foundation®
30 Cannon Street | London EC4M 6XH | United Kingdom
Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411
Email: info@ifrs.org Web: ww.ifrs.org

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This training material has been prepared by IFRS Foundation education staff and has not been approved by the International Accounting Standards Board (IASB).
The accounting requirements applicable to small and medium-sized entities (SMEs) are set out in the *International Financial Reporting Standard (IFRS) for SMEs*, which was issued by the IASB in July 2009.

INTRODUCTION

This module focuses on the accounting and reporting of events that occur between the end of the reporting period and the date on which the financial statements are authorised for issue in accordance with Section 32 *Events after the End of the Reporting Period* of the *IFRS for SMEs*. It introduces the learner to the subject, guides the learner through the official text, develops the learner's understanding of the requirements through the use of examples and indicates significant judgements that are required in accounting for events after the end of the reporting period. Furthermore, the module includes questions designed to test the learner's knowledge of the requirements and case studies to develop the learner's ability to account for events after the reporting period in accordance with the *IFRS for SMEs*.

Learning objectives

Upon successful completion of this module you should know the financial reporting requirements for events that occur between the end of the reporting period and the date when the financial statements are authorised for issue in accordance with the *IFRS for SMEs*. Furthermore, through the completion of case studies that simulate aspects of the real world application of that knowledge, you should have enhanced your competence to account for such events occurring after the end of the reporting period in accordance with the *IFRS for SMEs*. In particular you should, in the context of the *IFRS for SMEs*, be able:

- to determine the date on which the financial statements are authorised for issue
- to differentiate between adjusting and non-adjusting events after the end of the reporting period
- to identify and account for adjusting events after the end of the reporting period in financial statements
- to identify and disclose non-adjusting events after the end of the reporting period in financial statements
- to demonstrate an understanding of the significant judgements that are required in accounting for events after the end of the reporting period.

Module 32 – Events after the End of the Reporting Period

IFRS for SMEs

The *IFRS for SMEs* is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* includes mandatory requirements and other material (non-mandatory) that is published with it.

The material that is not mandatory includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* and explains its purpose, structure and authority.
- implementation guidance, which includes illustrative financial statements and a disclosure checklist.
- the Basis for Conclusions, which summarises the IASB's main considerations in reaching its conclusions in the *IFRS for SMEs*.
- the dissenting opinion of an IASB member who did not agree with the publication of the *IFRS for SMEs*.

In the *IFRS for SMEs* the Glossary is part of the mandatory requirements.

In the *IFRS for SMEs* there are appendices in Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue.* Those appendices are non-mandatory guidance.

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. The objective of Section 32 is to prescribe when an entity should adjust its financial statements for events after the end of the reporting period and to prescribe the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The section classifies events after the end of the reporting period as:

(a) adjusting events—those that provide evidence of conditions that existed at the end of the reporting period; or

(b) non-adjusting events—those that are indicative of conditions that arose after the end of the reporting period.

Adjusting events reflect new information about the assets and liabilities that were recognised at the end of the reporting period or about the income, expenses or cash flows that were recognised during the reporting period. Adjusting the financial statements to reflect the new information improves the relevance, reliability and completeness of the financial statements and therefore makes them more useful.

Because non-adjusting events relate to conditions that arose after the end of the reporting period, they should not be reflected in the amounts recognised in the financial statements as assets and liabilities at the end of the reporting period or as income, expenses or cash flows during the reporting period. Nonetheless, disclosing information about significant conditions that arose after the end of the reporting period is relevant to assessing the future cash flows of the entity.

Module 32 – Events after the End of the Reporting Period

REQUIREMENTS AND EXAMPLES

The contents of Section 32 *Events after the End of the Reporting Period* of the *IFRS for SMEs* are set out below and shaded grey. Terms defined in the Glossary of the *IFRS for SMEs* are also part of the requirements. Those terms are in **bold type** the first time they appear in the text of Section 32. The notes and examples inserted by the IFRS Foundation education staff are not shaded. The insertions made by the staff do not form part of the *IFRS for SMEs* and have not been approved by the IASB.

Scope of this section

32.1 This section defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those events.

Events after the end of the reporting period defined

32.2 Events after the end of 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 authorised for issue. There are two types of events:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period), and

(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).

Examples – adjusting events

Ex 1 **An entity gives warranties at the time of sale to purchasers of its products. On 31 December 20X5 an entity assessed its warranty obligation to be CU100,000[1]. Immediately before the 31 December 20X5 annual financial statements were authorised for issue, the entity discovered a latent defect in one of its lines of products (ie a defect that was not discoverable by reasonable or customary inspection). As a result of the discovery, the entity reassessed its estimate of its warranty obligation at 31 December 20X5 at CU150,000.**

The event—discovery of the latent defect—is an adjusting event after the end of the reporting period. The condition—the latent defect—existed in products sold before 31 December 20X5.

Ex 2 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue.**

[1] In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units (CU)'.

On 1 February 20X1 a competitor agreed to settle a claim by the entity for breach of one of its patents. The entity opened the case against the competitor in 20X0. However, the competitor had disputed the entity's case.

The event—settlement of the case—is an adjusting event after the end of the reporting period. It provides conclusive evidence that the entity had a valid receivable from the competitor at 31 December 20X0 from which economic benefits will flow to the entity (see paragraph 32.2(a)).

Examples – non-adjusting events

Ex 3 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. At 31 December 20X0 the entity had significant unhedged foreign currency exposures. By 1 March 20X1 a significant loss had been incurred on these exposures because of a material weakening of the entity's functional currency against the foreign currencies to which it is exposed.**

The event—deterioration of the exchange rate—is a non-adjusting event after the end of the reporting period. It is indicative of conditions that arose after the end of the reporting period (see paragraph 32.2(b)). The decline in exchange rate does not usually relate to conditions that existed at the end of the reporting period, but reflects circumstances that have arisen subsequently (ie the exchange rate at the end of the reporting period took account of conditions that existed at that date).

Ex 4 **The facts are the same as in example 2, with the following change. Instead of the competitor agreeing to settle on 1 February 20X1, on that date a jury found the competitor liable for the amount of the entity's claim. However, the competitor has a right to appeal the jury decision to a higher court and has indicated its intention to do so.**

The event−the jury award−is a non-adjusting event. The competitor's right of appeal and intention to do so indicates that at 31 December 20X0 the entity's claim against the competitor is a contingent asset. Paragraph 21.13 of the *IFRS for SMEs* states that 'an entity shall not recognise a contingent asset as an asset'.

Examples – not an event after the end of the reporting period

Ex 5 **The facts are the same as in example 1. However, the latent defect was discovered on 31 March 20X6, after the 31 December 20X5 annual financial statements were authorised for issue. In April 20X6 the entity paid CU150,000 to transfer the obligation to an independent third party.**

The latent defect is not an event after the end of the reporting period because it was discovered after the 20X5 financial statements were authorised for issue. The CU100,000 obligation for the warranty provision was measured and reported in good faith in the entity's 31 December 20X5 annual financial statements. The additional CU50,000 not provided for at 31 December 20X5 is a change in accounting estimate. It is recognised as an expense in determining the profit or loss for the three-month period ended 31 March 20X6. Thus, it will be included in profit or loss in the 20X6 financial statements.

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

Recognition and measurement

Notes

In addition to the requirements of Section 32, paragraph 3.8 requires an entity's management, when preparing financial statements, to make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When an entity does not prepare financial statements on a going concern basis, it must disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Adjusting events after the end of the reporting period

32.4 An entity shall adjust the amounts recognised in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

32.5 The following are examples of adjusting events after the end of 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 end of 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 Section 21 *Provisions and Contingencies* or recognises a new provision. The entity does not merely disclose a contingent liability. Rather, the settlement provides additional evidence to be considered in determining the provision that should be recognised at the end of the reporting period in accordance with Section 21.

(b) the receipt of information after the end of 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 end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the **carrying amount** of the trade receivable; and

   (ii) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

(c) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

(d) the determination after the end of the reporting period of the amount of profit-sharing or bonus payments, if the entity had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date (see Section 28 *Employee Benefits*).

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

Examples – adjusting events

Ex 6 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue.**

On 1 February 20X1 a competitor settled a claim by the entity for breach of one of its patents by paying the entity CU600,000. The entity opened a case against a competitor in 20X0. However, until 1 February 20X1 the competitor disputed the entity's case.

The settlement of the case provides evidence of conditions that existed at the end of the reporting period (see paragraph 32.2(a)). The entity must report a CU600,000 receivable at 31 December 20X0 with a corresponding increase in profit for the year ended 31 December 20X0 (see also example 2 under paragraph 32.2).

Ex 7 **An entity gives warranties at the time of sale to purchasers of its products. On 31 December 20X5 an entity assessed its warranty obligation as CU100,000. Immediately before the 31 December 20X5 annual financial statements were authorised for issue, the entity discovered a latent defect in one of its lines of products (ie a defect that was not discoverable by reasonable or customary inspection). As a result of the discovery, the entity reassessed its estimate of its warranty obligation at 31 December 20X5 at CU150,000.**

The discovery of the latent defect is an adjusting event after the end of the reporting period. The condition—the latent defect—existed in products sold before 31 December 20X5. The obligation for the warranty provision must be measured at CU150,000 at 31 December 20X5 with a corresponding decrease in profit for the year ended 31 December 20X5.

Ex 8 **On 28 February 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. The entity sells some products on credit to a customer before 31 December 20X0. At 31 December 20X0 the entity's management had no doubt about the customer's ability to pay the outstanding trade receivable of CU200,000. However, in February 20X1, during the process of finalising the financial statements, the entity is informed that the customer is going into liquidation because it has significant debt, has virtually no cash inflows, and its accounting records are poorly maintained. Because of this, the trade receivables are deemed worthless.**

A full allowance for bad debts of CU200,000 should be made against the trade receivable giving a corresponding loss of CU200,000 in profit or loss. A customer's bankruptcy after the year-end will, in nearly all cases, be the culmination of a sequence of events that started before year-end, indicating that the trade receivable is impaired as at 31 December 20X0.

However, if the financial instability of the debtor had arisen after 31 December 20X0 (ie the debtor's financial position was strong at 31 December 20X0) then the event would be non-adjusting, for example when the debtor's bankruptcy was caused by a unique, catastrophic event that occurred after 31 December 20X0.

Ex 9 **In March 20X5 the entity discovers that an error was made in the inventory reported in its statement of financial position at 31 December 20X2, resulting in an overstatement of income for that year. No error was made in the inventory that was reported for 31 December 20X3. Therefore the effect of the error on profit for 20X2 was 'reversed' in measuring profit for 20X3.**

If historical data are presented that include 20X2 and 20X3, these years should be restated even though there is no effect in 20X4 or 20X5, not even on retained earnings at 1 January 20X4. This is a correction of an error (dealt with in Section 10 of the *IFRS for SMEs*), not an event after the end of the reporting period covered by Section 32.

Non-adjusting events after the end of the reporting period

32.6 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the end of the reporting period.

32.7 Examples of non-adjusting events after the end of the reporting period include:

(a) a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market 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 in accordance with paragraph 32.10.

(b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the **reporting date** but before the financial statements are issued. This would be a contingent asset at the reporting date (see paragraph 21.13), and disclosure may be required by paragraph 21.16. However, agreement on the amount of damages for a judgement that was reached before the reporting date, but was not previously recognised because the amount could not be measured reliably, may constitute an adjusting event.

Examples – non-adjusting events

Ex 10 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. At 31 December 20X0 the entity had significant unhedged foreign currency exposures. By 1 March 20X1 a significant loss had been incurred on these exposures because of a material weakening of the entity's functional currency against the foreign currencies to which it is exposed.**

The deterioration of the exchange rate is a non-adjusting event after the end of the reporting period. It is indicative of conditions that arose after the end of the reporting period (see paragraph 32.2(b)). The decline in exchange rate does not usually relate to conditions that existed at the end of the reporting period, but reflects circumstances that have arisen subsequently (ie the exchange rate at the end of the reporting period took account of conditions that existed at that date). Therefore, the entity does not adjust the amounts recognised during the year for the change in the exchange rate. Similarly, the entity does not update the amounts disclosed for the foreign currency denominated liabilities (and assets) as at the end of the reporting period, although it may need to give additional disclosure in accordance with paragraph 32.10.

Ex 11 **On 28 February 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. On 20 February 20X1 a fire destroyed one of the entity's paper manufacturing plants which had a carrying amount of CU2,000,000 at 31 December 20X0. The entity does not have insurance against fire damage. The entity remains a going concern.**

The destruction of the plant by fire is a non-adjusting event after the end of the reporting period. The fire is a condition that arose after the end of the reporting period (see paragraph 32.2(b)). The entity does not adjust the amounts recognised in its financial statements. However, it must give additional disclosure in accordance with paragraph 32.10.

Ex 12 **On 28 February 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. At 31 December 20X0 the fair value of the entity's investment in the ordinary shares of a publicly traded entity accounted for at fair value through profit or loss in accordance with paragraph 11.14(c)(i) of Section 11 *Basic Financial Instruments* was CU20,000.**

On 28 February 20X1 the fair value of the shares was CU25,000.

The change in the fair value of the publicly traded shares is a non-adjusting event after the end of the reporting period. The change in the fair value is a result of conditions that arose after the end of the reporting period (see paragraph 32.2(b)). The entity does not adjust the amounts recognised in its financial statements. However, it must give additional disclosure in accordance with paragraph 32.10.

Dividends

32.8 If an entity declares dividends to holders of its equity instruments after the end of the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.

Examples – dividends

Ex 13 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. On 28 February 20X1 the entity declared a final dividend of CU100,000 in respect of profits earned in the year ended 31 December 20X0.**

The declaration of the dividend is a non-adjusting event after the end of the reporting period. At 31 December 20X0 the entity did not have an obligation to pay a dividend and therefore it cannot record a liability for those dividends at 31 December 20X0. Dividends do not meet the criteria for recognition as a liability under Section 21 *Provisions and*

Contingencies until they are appropriately authorised and are no longer at the discretion of the entity.

Ex 14 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. On 28 February 20X1 the entity paid a final dividend of CU100,000 to its shareholders in respect of profits earned in the year ended 31 December 20X0. The entity declared the dividend on 31 December 20X0.**

The payment of the dividend is not relevant to the existence of the obligation at 31 December 20X0. At 31 December 20X0, the entity had an obligation to pay the dividend and therefore must record CU100,000 liability for those dividends at 31 December 20X0.

Disclosure

Notes

There is no specific requirement in Section 32 of the *IFRS for SMEs* to disclose adjusting events, because the recognised amounts are adjusted for the effects of the adjusting event.

Date of authorisation for issue

32.9 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

Notes

The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements. For example, when an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued, the financial statements are authorised for issue on the date of issue, not the date when shareholders approve the financial statements.

Non-adjusting events after the end of the reporting period

32.10 An entity shall disclose the following for each category of non-adjusting event after the end of 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.

32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:

(a) a major business combination or disposal of a major subsidiary.

(b) announcement of a plan to discontinue an operation.

(c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government.

(d) the destruction of a major production plant by a fire.

(e) announcement, or commencement of the implementation, of a major restructuring.

(f) issues or repurchases of an entity's debt or equity instruments.

(g) abnormally large changes in asset prices or foreign exchange rates.

(h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities.

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

(j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

Examples – disclosure of non-adjusting events

Ex 15 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue.**

At 31 December 20X0 the spot exchange rate was CU2:FCU1. The entity measured its FCU2,000,000[2] **unhedged non-current liability at CU4,000,000 in its statement of financial position at 31 December 20X0.**

On 1 March 20X1 the exchange rate was CU2.5:FCU1.

Note 20 Events after the end of the reporting period

The financial statements were authorised for issue on 1 March 20X1 when the exchange rate was CU2.5:FCU1. The deterioration of the exchange rate from CU2:FCU1 at 31 December 20X1 has increased the expected settlement amount of the FCU-denominated liability by CU1,000,000.

Ex 16 **An entity's financial statements for the year ended 31 December 20X0 were authorised for issue on 28 February 20X1.**

On 20 February 20X1 a fire destroyed one of the entity's paper manufacturing plants, which had a carrying amount of CU2,000,000 in the entity's statement of financial position at 31 December 20X0.

The entity does not have insurance against fire damage. The destroyed plant has no value. It will be replaced at an estimated cost of CU3,000,000.

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[2] In this example, foreign currency is denominated 'foreign currency units (FCU)'.

The entity remains a going concern.

Note 20 Events after the end of the reporting period

On 20 February 20X1 one of the entity's uninsured paper manufacturing plants was destroyed by fire, resulting in plant with a carrying amount of CU2,000,000 at 31 December 20X0 being impaired to CU0 during 20X1. The plant will be replaced at an estimated cost of CU3,000,000.

Ex 17 **On 15 May 20X1 an entity's financial statements for the year ended 31 March 20X1 were authorised for issue. The entity has three major product lines: A, B and C.**

On 1 May 20X1 the entity announced that it intends closing its Product A operations. The product A operations did not meet the criteria to be classified as held for sale at 31 March 20X1.

The announcement to discontinue the Product A operations is a non-adjusting event. The condition did not exist at 31 March 20X1. This non-adjusting event must be disclosed in its 31 March 20X1 financial statements.

Note 20 Events after the end of the reporting period

On 1 May 20X1 the entity announced the closure of its Product A operations in Area A. During the year ended 31 March 20X1, Product A accounted for operating profits of CU20,000. At 31 March 20X1 the carrying amount of the net assets related to Product A operations was CU0.5 million.

Module 32 – Events after the End of the Reporting Period

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* to transactions and events often requires judgement. Information about significant judgements and key sources of estimation uncertainty are useful in assessing the financial position, performance and cash flows of an entity. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Furthermore, in accordance with paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Other sections of the *IFRS for SMEs* require disclosure of information about particular judgements and estimation uncertainties.

Events after the end of the reporting period

In most cases, little difficulty is encountered in determining the adjustment to the amounts recognised in the financial statements to reflect adjusting events after the end of the reporting period. Similarly, in most cases, little difficulty is encountered in estimating the financial effect to be disclosed for non-adjusting events after the end of the reporting period.

However, in some cases significant judgement is required to measure the adjustments arising from adjusting events and to estimate the financial effects of non-adjusting events. These estimation difficulties generally arise from estimation uncertainty in the measurement of the underlying elements, rather than the event itself. An example to illustrate this would be dealing with events after the reporting period that affect assets measured at fair value, where an active market for such assets does not exist.

Usually the shorter the period of time between the event (after the end of the reporting period) and the date on which the financial statements are authorised for issue, the greater the estimation uncertainty, especially for non-adjusting events. This is because there is less time to receive evidence regarding the total effect of the event.

Module 32 – Events after the End of the Reporting Period

COMPARISON WITH FULL IFRSs

Full IFRSs (see IAS 10 *Events after the Reporting Period*) and the *IFRS for SMEs* (see Section 32 *Events after the End of the Reporting Period*) as issued at 9 July 2009 share the same principles for accounting and reporting events after the end of the reporting period. However, the *IFRS for SMEs* is drafted in plain language and includes significantly less guidance on how to apply the principles.

Module 32 – Events after the End of the Reporting Period

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for accounting and reporting events after the end of the end of the reporting period in accordance with the *IFRS for SMEs* by answering the questions below.

Once you have completed the test check your answers against those set out below this test.

Assume all amounts are material.

Mark the box next to the most correct statement.

Question 1

Events after the end of the reporting period are defined as:

☐ (a) events, favourable and unfavourable, that occur between the end of the reporting period and the date of the entity's next annual financial statements.

☐ (b) events, favourable and unfavourable, that occur between the end of the reporting period and the date of the entity's next interim (or annual) financial statements.

☐ (c) events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Question 2

Section 32 of the *IFRS for SMEs* has specific requirements for:

☐ (a) events after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period.

☐ (b) events after the end of the reporting period that are indicative of conditions that arose after the end of the reporting period.

☐ (c) events after the end of the reporting period that are indicative of conditions that arose after the end of the reporting period or that provide evidence of conditions that existed at the end of the reporting period.

Question 3

Adjusting events are those that:

☐ (a) provide evidence of conditions that existed at the end of the reporting period.

☐ (b) are indicative of conditions that arose after the end of the reporting period.

☐ (c) are favourable or unfavourable, and indicative of conditions that arose after the end of the reporting period.

Module 32 – Events after the End of the Reporting Period

Question 4

When after the end of the reporting period an event occurs that is indicative of conditions that arose after the end of the reporting period:

☐ (a) the entity discloses the nature and effect of the event in the financial statements.

☐ (b) the entity adjusts the related amounts recognised in the financial statements.

☐ (c) both of the above statements are true.

Question 5

On 15 March 20X1 the entity authorised for issue its annual financial statements for the year ended 31 December 20X0.

On 10 March 20X1 the entity's factory and several items of equipment were damaged in an earthquake.

The event (quake damage):

☐ (a) is an adjusting event after the end of the 31 December 20X0 reporting period.

☐ (b) is a non-adjusting event after the end of the 31 December 20X0 reporting period.

☐ (c) is neither an adjusting event after the end of the 31 December 20X0 reporting period nor a non-adjusting event after the end of the 31 December 20X0 reporting period.

Question 6

Which of the following is a non-adjusting event after the end of the reporting period that an entity should disclose in its financial statements for 20X5?

In each case, the financial statements for 20X5 have not yet been authorised for issue.

☐ (a) An entity has a portfolio of shares with quoted market prices. These are measured at fair value through profit or loss in accordance with Section 11 of the *IFRS for SMEs*. After the end of the reporting period, there was a substantial decline in the stock market. The fair value of the entity's portfolio of shares declined significantly.

☐ (b) At 31 December 20X5 one individual owned 100 per cent of the entity's outstanding shares. In February 20X6 that individual sold 80 per cent of her holding to another party.

☐ (c) All of the above.

Question 7

On 25 March 20X4 the entity discovered that, as a result of a computational error, depreciation expense for the year ended 31 December 20X3 is overstated by CU29,000.

The entity's 31 December 20X3 financial statements were authorised for issue on 1 April 20X4.

The entity must:

☐ (a) correct its 31 December 20X3 financial statements before issuing them.

☐ (b) reduce depreciation for the year ended 31 December 20X4 by CU29,000 (ie prospective allocation—a change in accounting estimate).

☐ (c) restate (correct) the depreciation expense reported for the year ended 31 December 20X3 in the comparative figures of its 20X4 financial statements (ie retrospective restatement of a prior period error).

Note: Knowledge of the requirements of Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* is required to answer questions 8 to 10. The requirements of Section 10 are set out in Module 10.

Question 8

The information in Question 7 applies. However, in this question, the entity's 31 December 20X3 financial statements were authorised for issue on 1 March 20X4. The entity must:

☐ (a) reissue its 31 December 20X3 financial statements with the correct depreciation expense.

☐ (b) reduce depreciation for the year ended 31 December 20X4 by CU29,000 (ie prospective allocation—a change in accounting estimate).

☐ (c) restate (correct) the depreciation expense reported for the year ended 31 December 20X3 in the comparative figures of its 20X4 financial statements (ie retrospective restatement of a prior period error).

Question 9

On 20 January 20X5, before an entity's 31 December 20X4 financial statements were authorised for issue, a court ordered the entity to pay CU120,000 damages in full and final settlement of a patent infringement lawsuit brought against the entity by one of its competitors. The patent infringement occurred during 20X3. The amount of damages awarded to the competitor was significantly higher than the CU10,000–CU30,000 that the entity had justifiably expected to pay. However, the entity will not contest the judgement.

In its 31 December 20X3 annual financial statements the entity reported its liability for the lawsuit at CU20,000—this estimate was made in good faith and taking account of all available evidence.

In its 31 December 20X4 financial statements the entity must:

☐ (a) restate the comparative information as at 31 December 20X3 (ie retrospective restatement of a prior period error).

☐ (b) measure the provision as at 31 December 20X4 at CU120,000 with comparative information for 20X3: CU20,000 (ie account prospectively for the change in accounting estimate in its 20X4 financial statements).

☐ (c) measure the provision as at 31 December 20X4 at CU20,000 (comparative information 20X3: CU20,000) and record the effect of the higher than expected settlement in profit or loss for the year ended 31 December 20X5 (ie account prospectively for the change in accounting estimate in the period that the final settlement amount was determined).

Question 10

On 20 January 20X5, before an entity's 31 December 20X4 financial statements were authorised for issue, a court ordered that entity to pay CU120,000 damages in full and final settlement of a patent infringement lawsuit brought against the entity by one of its competitors. The patent infringement occurred in 20X3. The amount of damages awarded to the competitor was consistent with similar cases settled in that jurisdiction since 20X2.

In its 31 December 20X3 annual financial statements the entity reported its liability for the lawsuit at CU20,000. At the time of approving its 20X3 financial statements the entity deliberately understated the amount presented, because it did not want to make public its true estimate, believing that this would be detrimental to the entity's defence.

In its 31 December 20X4 financial statements the entity must:

☐ (a) restate the comparative information as at 31 December 20X3 (ie retrospective restatement of a prior period error).

☐ (b) measure the provision as at 31 December 20X4 at CU120,000 (comparative information 20X3: CU20,000), (ie account prospectively for the change in accounting estimate in its 20X4 financial statements).

☐ (c) measure the provision as at 31 December 20X4 at CU20,000 (comparative information 20X3: CU20,000) and record the effect of the higher than expected settlement in profit or loss for the year ended 31 December 20X5 (ie account prospectively for the change in accounting estimate in the period that the final settlement amount was determined).

Module 32 – Events after the End of the Reporting Period

Question 11

On 15 March 20X1 the entity authorised for issue its annual financial statements for the year ended 31 December 20X0.

On 10 March 20X1 the entity's factory and several items of equipment were damaged in an earthquake. As a result of the uninsured earthquake damage, the management of the entity determines that the entity will be unable to continue trading and hence the entity cannot be regarded as a going concern.

The entity must:

☐ (a) prepare its 31 December 20X0 financial statements on a going concern basis, including disclosing a non-adjusting event after the end of the 31 December 20X0 reporting period (ie disclose the nature and effect of the earthquake in the notes to its 31 December 20X0 annual financial statements).

☐ (b) not prepare its 31 December 20X0 financial statements on a going concern basis. Any financial statements the entity prepares must disclose that they are not on a going concern basis, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

☐ (c) prepare its 31 December 20X0 financial statements on a going concern basis, including accounting for an adjusting event after the end of the 31 December 20X0 reporting period (ie a recognise the impairment loss in its 31 December 20X0 annual financial statements).

Note: Knowledge of the requirements of Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* is required to answer question 11. The requirements of Section 3 are set out in Module 3.

Module 32 – Events after the End of the Reporting Period

Answers

Q1 (c) see paragraph 32.2
Q2 (c) see paragraph 32.2
Q3 (a) see paragraph 32.2(a)
Q4 (a) see paragraphs 32.6 and 32.10
Q5 (b) The condition (quake damage) did not exist at the end of the reporting period (31 December 20X0)
Q6 (c) see paragraphs 32.2(b), 32.6, 32.7 and 32.11
Q7 (a) see paragraphs 32.2(a) and 32.4
Q8 (c) This question is not about the application of Section 32 *Events after the End of the Reporting Period* of the *IFRS for SMEs*—the error in the entity's financial statements for the year ended 31 December 20X3 was detected after the financial statements were authorised for issue (ie after the period relevant to the application of the requirements of Section 32). The question is about how to account for a prior period material error (see paragraph 10.21).
Q9 (b) The condition (patent infringement) existed at the end of the reporting period (31 December 20X4). Therefore the entity must measure the liability at CU120,000 in its statement of financial position at 31 December 20X4 (ie an adjusting event, see paragraph 32.2(a)). Although the condition existed at 31 December 20X3, the comparative figures (ie at 20X3) are not restated—the estimate at 31 December 20X3 was made in good faith and taking account of all the available evidence (ie there is a change in accounting estimate not a prior period error). The new information (court ruling) was made after the entity's financial statements for the year ended 31 December 20X3 were authorised for issue.
Q10 (a) The condition (patent infringement) existed at the end of the reporting period (31 December 20X4). Therefore the entity must measure the liability at CU120,000 in its statement of financial position at 31 December 20X4 (ie an adjusting event see paragraph 32.2(a)). Moreover, the comparative figures (ie at 31 December 20X3) must be restated—the entity deliberately understated the liability in its financial statements for the year ended 31 December 20X3 (ie there is a material prior period error).
Q11 (b) see paragraphs 3.8 and 3.9

Module 32 – Events after the End of the Reporting Period

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting and reporting events after the end of the reporting period in accordance with the *IFRS for SMEs* by solving the case studies below.

Once you have completed the case studies check your answers against those set out at the end of this test.

Case study 1

On 29 January 20X5 SME H discovered that its warehouse was damaged. The warehouse was constructed by SME H at a cost of CU1,000,000 in 20X0. It first became available for use by the entity on 1 January 20X1.

During early February 20X5, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the building leaked severely after heavy rainfall in the week ended 27 January 20X5. The discovery of the fault is an indication of impairment, so SME H was required to estimate the recoverable amount of its warehouse at 31 December 20X4. This estimate was CU600,000. Furthermore, SME H reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, SME H had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Rain damage from seepage through the crack in the warehouse caused inventory with a cost of CU100,000 to become unsaleable. All of the damaged inventory was on hand at 31 December 20X4.

SME H is not insured against any of the losses. It accounts for all its property, plant and equipment under the cost model.

SME H's annual financial statements for the year ended 31 December 20X4 were authorised for issue on 28 February 20X5.

Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of SME H for the year ended 31 December 20X4.

Module 32 – Events after the End of the Reporting Period

Answer to case study 1

31 December 20X4

Dr	Profit or loss (depreciation expense)	CU19,608[(a)]	
	Cr Accumulated depreciation/impairment		CU19,608

To recognise the additional depreciation expense for the year ended 31 December 20X4 arising from the reassessment of the useful life of the warehouse.

Dr	Profit or loss (impairment expense)	CU247,059[(e)]	
	Cr Accumulated depreciation/impairment		CU247,059

To recognise the impairment of the structurally flawed warehouse at 31 December 20X4.

The calculations and explanatory notes below do not form part of the answer to this case study:

In this case study, tax effects have been ignored.

The damage to warehouse is an adjusting event after the end of the 20X4 reporting period (see paragraph 32.1(a))—it provides evidence that the structural fault existed at the end of the reporting period, notwithstanding that it was discovered (became apparent) after that date. The effects of the damage to the warehouse, calculated below, are recognised in the 20X4 reporting period (see paragraph 32.4). 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—see paragraph 10.18.).

Note: If the damage to the warehouse had been caused by an event that occurred after 31 December 20X4 (eg if in this case there was no structural fault) then a non-adjusting event after the end of the 20X4 reporting period (see paragraph 32.1(b)) would have occurred—the warehouse would have been in a good condition at 31 December 20X4.

The CU100,000 rain-damage to inventory occurred during 20X5. It is a non-adjusting event after the end of the 20X4 reporting period (see paragraph 32.1(b))—the inventory was in good condition at 31 December 20X4.

SME H must disclose the nature of the event (ie rain-damage to inventories) and an estimate of the financial effect (ie CU100,000 loss) in the notes to its 31 December 20X4 annual financial statements (see paragraph 32.9).

(a) CU52,941[(c)] recalculated depreciation less CU33,333[(b)] depreciation originally calculated = CU19,608

(b) CU1,000,000 cost ÷ 30-year useful life = CU33,333 depreciation per year

(c) CU900,000[(d)] carrying amount at 31 December 20X3 ÷ 17-year useful life = CU52,941 depreciation per year

(d) CU1,000,000 cost less (3 years x CU33,333[(b)] depreciation) = CU900,000 carrying amount at 31 December 20X3

(e) CU847,059[(f)] carrying amount before testing for impairment less CU600,000 recoverable amount at 31 December 20X5 = CU247,059 impairment loss for the year ended 31 December 20X4 (see Section 27 *Impairment of Assets*)

(f) CU900,000[(d)] carrying amount at 31 December 20X3 less CU52,941[(c)] depreciation for the year ended 31 December 20X4 = CU847,059 carrying amount on 31 December 20X4 before testing for impairment

Module 32 – Events after the End of the Reporting Period

Case study 2

SME J's annual financial statements for the year ended 31 December 20X4 were authorised for issue on 28 February 20X5.

On 1 January 20X5, when SME J's business was closed for a national holiday, an arsonist set fire to SME J's warehouse. The warehouse was constructed by SME J at a cost of CU1,000,000 in 20X0. It was ready for use on 1 January 20X1.

In response to structural damage caused by the fire, on 2 January 20X5, SME J made the following estimates regarding the warehouse:

- the recoverable amount of the warehouse was estimated at CU600,000
- the useful life of the warehouse reduced from 30 years to 20 years from the date that it was ready for use
- the straight-line method remained the appropriate depreciation method
- the residual value remained CU0.

Inventories with a carrying amount of CU100,000 were destroyed by the fire.

SME J insures its inventory up to a maximum loss of CU50,000 per incident. The damage to the warehouse is not insured.

On 31 January 20X5 SME J acquired 60 per cent of the equity of its largest competitor (SME K) for CU3,000,000 when the fair value of assets and liabilities of SME K were respectively CU4,800,000 and CU2,000,000. The business combination almost doubled the size of the SME J group and synergies are expected to enhance significantly the profitability of the consolidated entity.

On 15 February 20X5 SME J issued 200,000 shares at CU10 each to its existing shareholders in proportion to their existing shareholdings to part fund the acquisition of SME K.

On 27 February 20X5 SME J declared a final dividend of CU500,000 (ie CU1 per share) in respect of the year ended 31 December 20X4.

Prepare the note to disclose the events after the end of the reporting period in the financial statements of SME J for the year ended 31 December 20X4.

Module 32 – Events after the End of the Reporting Period

Answer to case study 2

SME J

Notes to the financial statements for the year ended 31 December 20X4

Note 25 Events after the end of the reporting period [a]

The financial statements were authorised by SME J's directors for issue on 28 February 20X5.

On 1 January 20X5 a fire caused structural damage to SME J's uninsured warehouse. On 1 January 20X5 the estimated impairment loss on the warehouse is CU266,667 [b] (recoverable amount of the warehouse was estimated to be CU600,000 on 2 January 20X5). As a result of the structural damage, SME J revised the remaining useful life of the warehouse from 26 years to 16 years.

Furthermore, CU100,000 inventory destroyed in the fire will be recognised as an expense in 20X5.

The reimbursement from the inventory insurance is estimated to be CU50,000.

On 31 January 20X5 SME J acquired 60 per cent of the equity of its largest competitor (SME K) for CU3,000,000 when the fair value of assets and liabilities of SME K were respectively CU4,800,000 and CU2,000,000.

The business combination almost doubled the size of the SME J group.

On 15 February 20X5 SME J issued 200,000 shares at CU10 each to part-fund the acquisition of SME K.

On 27 February 20X5 SME J declared a dividend of CU500,000.

The calculations and explanatory notes below do not form part of the answer to this case study:

(a) The fire, acquisition of SME K, the issue of shares and the declaration of dividends are all non-adjusting events after the reporting date.

(b) CU866,667[c] carrying amount at 1 January 20X5 less CU600,000 recoverable amount at 1 January 20X5 = CU266,667 estimated impairment loss on 1 January 20X5

(c) CU1,000,000 cost less (4 years x CU33,333[d] depreciation) = CU866,667 carrying amount at 31 December 20X4

(d) CU1,000,000 cost ÷ 30-year useful life = CU33,333 depreciation per year