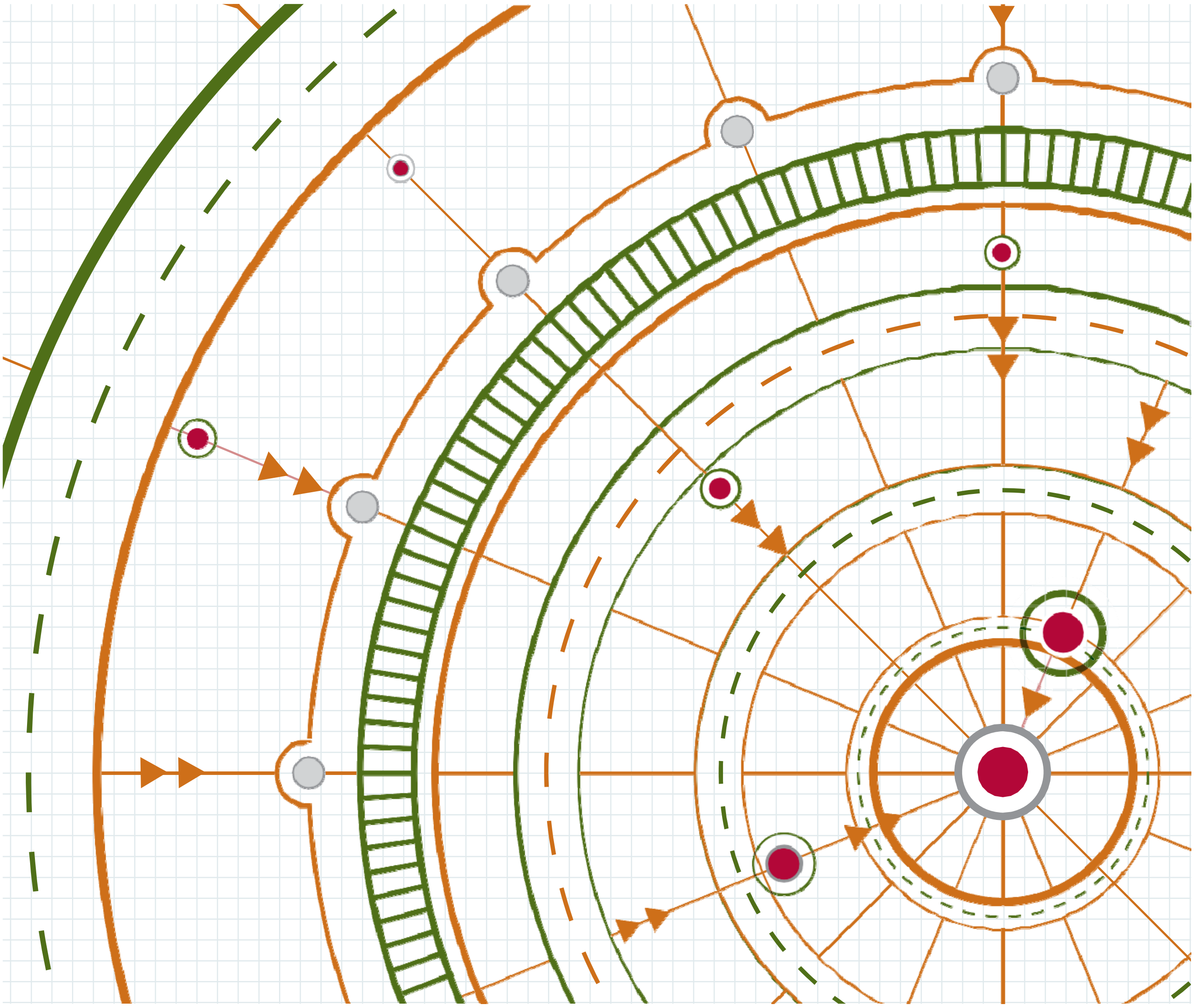
IFRS® Foundation—Supporting Material for the *IFRS for SMEs* Standard

Module 32—Events after the End of the Reporting Period



IFRS® Foundation
Supporting Material
for the *IFRS for SMEs*® Standard

including the full text of
Section 32 *Events after the End of the Reporting Period*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and case studies

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Contents

INTRODUCTION 1
Which version of the *IFRS for SMEs* Standard? 1
This module 1
IFRS for SMEs Standard 2
Introduction to the requirements 3
What has changed since the 2009 *IFRS for SMEs* Standard 3

REQUIREMENTS AND EXAMPLES 4
Scope of this section 4
Events after the end of the reporting period defined 4
Recognition and measurement 6
Disclosure 11

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS 13

COMPARISON WITH FULL IFRS STANDARDS 14

TEST YOUR KNOWLEDGE 15

APPLY YOUR KNOWLEDGE 20
Case study 1 20
Answer to case study 1 21
Case study 2 22
Answer to case study 2 23

Module 32—Events after the End of the Reporting Period

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015.
This module has been prepared by IFRS Foundation education staff.
The contents of Section 32 *Events after the End of the Reporting Period* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 32. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs*® Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

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 statement s are authorised for issue applying Section 32 *Events after the End of the Reporting Period* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in accounting for events after the end of the reporting period. In addition, the module includes questions designed to test your understanding of the requirements and case studies that provide a practical opportunity to apply the requirements on accounting and reporting events after the end of the reporting period in applying the *IFRS for SMEs* Standard.

Module 32—Events after the End of the Reporting Period

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

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

IFRS for SMEs Standard

The *IFRS for SMEs* Standard 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* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the IFRS for SMEs Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

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

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (August 2018) the SMEIG has not issued any Q&As relevant to this module.

Module 32—Events after the End of the Reporting Period

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. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

Section 32 prescribes when an entity should adjust its financial statements to reflect events after the end of the reporting period; and prescribes the disclosures that an entity is required to make 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; and

(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 financial statements to communicate such new information improves their relevance, reliability and completeness, 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 financial statements as assets and liabilities at the end of the reporting period, nor as income, expenses or cash flows during the reporting period. Nonetheless, information about significant conditions that arose after the end of the reporting period is relevant to an assessment of the future cash flows of an entity, and disclosure, rather than adjustment, is therefore required.

What has changed since the 2009 *IFRS for SMEs* Standard

This section of the *IFRS for SMEs* Standard was unchanged by the 2015 Amendments. However, this module reproduces other editorial changes.

Module 32—Events after the End of the Reporting Period

REQUIREMENTS AND EXAMPLES

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).

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** or other selected financial information.

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] The annual financial statements were authorised for issue on 1 March 20X6 but before that date the entity discovered a latent defect in one of its product lines (that is, a defect that was not discoverable by reasonable or customary inspection).**

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. Consequently, the entity has to reassess the estimate of its warranty obligation at 31 December 20X5.

Ex 2 **In 20X0 a competitor sued an entity for an alleged breach of one of its patents. Throughout 20X0, the entity disputed the claim and concluded that it is a contingent liability and therefore did not recognise a provision. On 1 February 20X1 the entity agreed to settle the claim. On 1 March 20X1 the entity's financial statements for the year ended 31 December 20X0 were authorised for issue.**

The settlement of the case is an adjusting event after the end of the reporting period. It provides additional evidence that the entity had an obligation with the competitor at 31 December 20X0 from which a transfer of economic benefits from the entity is probable (see paragraphs 32.2(a) and 21.4). Consequently, the entity has to recognise a provision for this obligation.

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

Example—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. The passage of a new law on 20 February 20X1 restricting a majority foreign ownership in all companies listed and non-listed alike resulted in a decline in the exchange rates of the entity's functional currency against other currencies. By 1 March 20X1 a significant loss had been incurred by the entity on these exposures because of the material weakening of the entity's functional currency against the foreign currencies to which it is exposed.**

A 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 (that is, the exchange rate at the end of the reporting period would have taken account of conditions that existed at that date). Specific to the circumstances above, the decline in exchange rate does not relate to conditions that existed at the end of the reporting period but instead to the introduction of the new law on 20 February 20X1. Consequently, the deterioration of the exchange rate is a non-adjusting event after the end of the reporting period and no adjustment is necessary.

Example—not an event after the end of the reporting period

Ex 4 **The facts are the same as those 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 on 1 March 20X6. In April 20X6 the entity paid CU150,000 to transfer the obligation to an independent third party.**

Since the error was discovered after the date the financial statements were authorised for issue, this event is not within the scope of Section 32. 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 therefore accounted for as a change in an accounting estimate. It is recognised as an expense in determining the profit or loss for the year ending 31 December 20X6. Thus, it will be included in profit or loss in the 20X6 financial statements (see paragraph 10.16(a)).

Example—other

Ex 5 **The facts are the same as in Example 2, except that on 1 February 20X1, instead of the entity agreeing to settle, a jury found the entity liable for the competitor's claim. However, the entity has a right to appeal the jury decision to a higher court and the entity's legal advisors opined that it is probable that the jury's decision will be overturned at the higher court. Taking this into account, the entity has indicated its intention to appeal the jury decision.**

Provided the assessment remains unchanged that it is a contingent liability, the jury award is a non-adjusting event. The entity's right of appeal, its advisors' opinion and its intention to appeal indicates that at 31 December 20X0 the competitor's claim against the entity is still a contingent liability. Paragraph 21.15 of the *IFRS for SMEs* Standard sets out disclosure requirements for a contingent liability.

The jury decision is an example of an event after the reporting period that in isolation provides evidence of conditions that existed at the end of the reporting period. However, taking into account all other relevant facts (legal advisors' opinion and entity's intention to appeal), the jury decision is considered not sufficiently compelling evidence to result in an adjustment.

Module 32—Events after the End of the Reporting Period

Recognition and measurement

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**. Instead, 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.

Notes

In addition to the examples above, 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. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

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 (see paragraph 3.9).

If, after the end of the reporting date but before the financial statements were authorised for issue, the entity has concluded that it will not be able to continue as a going concern, it will not prepare its financial statements on a going concern basis, it would adjust the basis of preparation of the financial statements.

Examples—adjusting events

Ex 6 **The facts are the same as those in Example 1.**

As discussed in example 1, the discovery of the latent defect is an adjusting event after the end of the reporting period. The entity has to reassess its 31 December 20X5 estimate of its warranty obligation. Assuming the revised estimate resulted in a CU150,000 warranty provision, the obligation for the warranty provision must be measured at CU150,000 in the statement of financial position as at 31 December 20X5. A further decrease of CU50,000 in profit for the year ended 31 December 20X5 is recognised.

Ex 7 **The facts are the same as those in Example 2. The entity settled the claim for CU600,000.**

The settlement of the case provides evidence of conditions that existed at the end of the reporting period (see paragraph 32.2(a)), that is, it had a present obligation as a result of a past event. The entity must report a CU600,000 liability at 31 December 20X0 with a corresponding decrease in profit for the year ended 31 December 20X0.

Ex 8 **On 28 February 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue. The entity sold 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 was informed that the customer was going into liquidation because it had significant debt, virtually no cash inflows, and its accounting records were poorly maintained. Because of these circumstances, the trade receivables were deemed worthless.**

In this example, the significant debt, poorly maintained accounting records suggests that the customer was in financial difficulties at 31 December 20X0. Consequently, 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 the year-end, indicating that the trade receivable was impaired as at 31 December 20X0.

However, if the financial instability of the debtor had arisen after 31 December 20X0 (that is, the debtor's financial position was strong at 31 December 20X0) then the event would be non-adjusting. For example, if a debtor's business was destroyed by an earthquake after the reporting date but before the financial statements were authorised for issue, as a result of which the debtor enters into liquidation, the entity's loss is caused by an event that occurred after 31 December 20X0, and does not relate to conditions that existed before the end of the reporting period. That event would be considered non-adjusting.

Example—other

Ex 9 **On 1 March 20X5, a week before the 31 December 20X4 financial statements were authorised for issue, 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.**

Applying paragraph 3.14 of Section *3 Financial Statement Presentation* the entity is required to present comparative information for all amounts presented in the current period's financial statements. The 20X3 financial information presented as comparative to the 20X4 financial information will be restated even though there is no effect in 20X4, and no effect on retained earnings at 1 January 20X4. Such a restatement would be a correction of an error (dealt with in Section 10 of the *IFRS for SMEs* Standard), 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. Consequently, 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 authorised for issue. 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.

Notes

Amounts recognised in the financial statements are not adjusted when events after the reporting period are determined to be non-adjusting.

An entity may regularly assess whether its contingent asset has become an asset that qualifies for recognition in the financial statements. Applying paragraph 21.13, a contingent asset is not recognised 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. Consequently, if at the end of a reporting period there is a contingent asset and the inflow of economic benefits becomes virtually certain in the subsequent reporting period but before the financial statements were authorised for issue, the asset is not recognised in financial statements. The asset is only recognised in the subsequent reporting period. On the other hand, if it were a contingent liability, the subsequent event is considered an adjusting event and is recognised in the financial statements.

Examples—non-adjusting events

Ex 10 **The facts are the same as those in Example 3.**

As discussed in Example 3, the deterioration of the exchange rate is a non-adjusting event after the end of the reporting period. 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 in the notes in respect of the liabilities (and assets) as at the end of the reporting period that are denominated in foreign currency. However, 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 is therefore required not to adjust the amounts recognised in its financial statements. However, it must give additional disclosure in accordance with paragraph 32.10.

Ex 12 **The facts are the same as in Example 7 except that in this example, the matter is analysed from the perspective of the competitor.**

If at the reporting date (31 December 20X0) the competitor had assessed that the inflow of economic benefits was probable but not virtually certain, it is a contingent asset. The resolution of the case before the financial statements were authorised for issue is considered a non-adjusting event applying paragraph 32.7(b). The asset and the related income are recognised in the financial statements of the period in which it became virtually certain that an inflow of economic benefits will arise. In this scenario, the competitor will recognise the asset and related income in the financial statements for the year ending 31 December 20X1.

If at the reporting date, based on relevant facts and evidence available to the competitor, it had assessed that inflow of economic benefits was virtually certain, and therefore has recognised an asset in its 31 December 20X0 draft financial statements, the resolution of the case is considered an adjusting event assuming the amount initially recognised is different from the amount finally settled.

Ex 13 **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 CU15,000.

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

The assessment above is not always the case. Depending on relevant facts and circumstances, if the shares are traded in a market that is not active, transactions or trading immediately after the reporting date may be indicative of the shares' fair value as at that reporting date.

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 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 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 approved and authorised and are no longer at the discretion of the entity.

Ex 15 **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 and it was appropriately approved and authorised on the same day.**

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 if it is appropriately approved and authorised, and thus no longer at its discretion. Therefore, the entity must record a CU100,000 liability for those dividends at 31 December 20X0.

Module 32—Events after the End of the Reporting Period

Disclosure

Notes

Section 32 of the *IFRS for SMEs* Standard has no specific requirement to disclose adjusting events, because an entity is required to adjust the recognised amounts in its financial statements, including disclosures, for the effects of the adjusting event (see paragraph 32.4).

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 an entity's 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; and

(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[2]

Ex 16 **On 1 March 20X1 an entity's financial statements for the year ended 31 December 20X0 were authorised for issue.**

The entity measured its FCU2,000,000[3] unhedged non-current liability at CU4,000,000 in its statement of financial position at 31 December 20X0 as the spot exchange rate on 31 December 20X0 was CU2:FCU1.

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 20X0 has increased the expected settlement amount of the FCU-denominated liability by CU1,000,000.

Ex 17 **The facts are the same as those in Example 11.**
Assume further that the destroyed plant has no value and it will be replaced at an estimated cost of CU3,000,000.

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 18 **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 to close its Product A operations in Area A. The Product A operations in Area A did not meet the criteria to be classified as a discontinued operation at 31 March 20X1. During the year ended 31 March 20X1, Product A accounted for operating profits in Area A of CU20,000. At 31 March 20X1 the carrying amount of the net assets related to Product A operations in Area A was CU0.5 million.**

The announcement to discontinue 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 the entity's 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 in that area of CU20,000. At 31 March 20X1 the carrying amount of the net assets related to Product A operations in Area A was CU0.5 million.

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[2] As an alternative to the succeeding examples, an entity may disclose the date when the financial statements were authorised for issue in other notes (for example, Note 1) and present the disclosure on events after the reporting period in the related note(s) about the same items (for example, an event after the reporting period about an entity's building may be disclosed within the note on property, plant and equipment).

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

Module 32—Events after the End of the Reporting Period

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying 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* Standard 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 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.

Module 32—Events after the End of the Reporting Period

COMPARISON WITH FULL IFRS STANDARDS

When accounting for and reporting events after the end of the reporting period for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 10 *Events after the Reporting Period*) and the *IFRS for SMEs* Standard (see Section 32 *Events after the End of the Reporting Period*) are:

- full IFRS Standards, through IFRIC 17 *Distribution of Non-cash Assets to Owners*, provides more guidance on when to recognise a dividend payable in the financial statements;
- the *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards; and
- guidance on going concern is specifically included in IAS 10 whereas it is in Section 3 *Financial Statement Presentation* of the *IFRS for SMEs* Standard.

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 reporting period applying the *IFRS for SMEs* Standard by answering the questions provided.

You should assume that all amounts mentioned are material.

Once you have completed the test, check your answers against those set out beneath it.

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* Standard has specific requirements for:

☐ (a) events after the end of the reporting period including those events expected after the date when the financial statements are authorised for issue that affect an entity's ability to continue as a going concern.

☐ (b) correction of errors identified after the reporting period but before the financial statements were authorised for issue

☐ (c) events after the end of the reporting period that either 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 an 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* Standard. 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% of the entity's outstanding shares. In February 20X6 that individual sold 80% of her holding to another party.
- ☐ (c) At 31 December 20X5 a parent wholly owns two subsidiaries, Entity A and Entity B. Both are considered major subsidiaries of the parent. On 2 February 20X6 the parent sold all its ownership interest in Entity B.
- ☐ (d) All of the above.

Module 32—Events after the End of the Reporting Period

Question 7

On 25 March 20X4 an 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 (that is, 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 (that is, retrospective restatement of a prior period error).

Question 8

Which of the following event is *not* within the scope of Section 32?

☐ (a) Prior to its 31 March 20X8 financial statements being authorised for issue, Entity C, a major client of Company A, announced that it will cease commercial operations effective immediately. A third of Company A's trade receivables are with Entity C.

☐ (b) On 2 February 20X7, a week before the 31 December 20X6 financial statements were authorised for issue, Entity A declared a cash dividend of CU2.50 for each share issued and outstanding, payable on 30 June 20X7.

☐ (c) The 31 December 20X5 financial statements of Entity D were authorised for issue on 1 March 20X6. On 12 April 20X6 one of Entity D's major manufacturing plants collapsed because of an earthquake.

☐ (d) On 15 January 20X4 Entity B, a manufacturer of farming machines, sold its remaining stock of slow moving inventories at 30% below its cost. The 31 December 20X3 financial statements were authorised for issue on 20 February 20X4

Module 32—Events after the End of the Reporting Period

Question 9

In which of the following instances would this result in an adjustment in the 31 December 20X8 financial statements of Entity A which were authorised for issue on 17 March 20X9?

☐ (a) A claim of Entity A is under legal proceeding as at the reporting date and which Entity A assessed as a contingent asset, but is finalised in Entity A's favour on 1 March 20X9.

☐ (b) On 25 January 20X9 the entity's board of directors approved the amount of annual bonus, which the entity is contractually obliged, to be paid to its eligible employees. The amount approved is different from the accrual made as at reporting date.

☐ (c) On 5 May 20X9 an error in its depreciation expense for the year ended 31 December 20X8 was noted by the new accountant.

Question 10

Which of the following is *not* a disclosure requirement of Section 32?

☐ (a) if an estimate of financial effect cannot be made, a statement explaining why it cannot be made for each category of non-adjusting event disclosed.

☐ (b) the date when the financial statements are authorised for issue and who gave that authorisation.

☐ (c) if the owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

Module 32—Events after the End of the Reporting Period

Answers

Q1 (c)—see paragraph 32.2.
Q2 (c)—see paragraph 32.2. Going concern is governed by Section 3 *Financial Statement Presentation* while correction of errors is governed by Section 10 *Accounting Policies, Estimates and Errors*
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 (d)—see paragraphs 32.2(b), 32.7 and 32.11.
Q7 (a)—see paragraphs 32.2(a) and 32.4.
Q8 (c)—see paragraph 32.2.
Q9 (b)—see paragraphs 32.4 and 32.5.
Q10 (a)—see paragraphs 32.9 to 32.11.

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 applying the *IFRS for SMEs* Standard by completing the case studies provided.

Once you have completed a case study, check your answers against those set out beneath it.

Case study 1

On 29 February 20X8, as the management of Entity A finalise its 20X7 annual financial statements, it has gathered information about and/or been made aware of the following events after the reporting period:

- Event 1. After a thorough discussion with its tax department and external legal counsel about a development in its case, the management has assessed that it is probable the entity will lose an ongoing VAT dispute with the tax authorities. The entity's tax and legal team has estimated the amount due to be CU120,000. The entity has previously not recognised any provision before in its statement of financial position.
- Event 2. On 2 February 20X8, the entity won a patent case it pursued against a competitor. The entity was awarded CU45,000. The entity has disclosed a contingent asset arising from this case in its 20X6 financial statements.
- Event 3. In mid-February one of the entity's major customers filed for bankruptcy when its main factory was destroyed by a flood. As of the end of 20X7, a tenth of the entity's trade receivables, amounting to CU85,000, are with this major customer.
- Event 4. In order to secure a significant and long-term finance arrangement, on 31 January 20X8 the entity guaranteed a borrowing originated by its wholly-owned subsidiary with a bank. The borrowing amounted to CU1 million.

Analyse how each of the events after the end of the reporting period are taken into account in Entity A's 20X7 financial statements. If applicable, prepare accounting entries to record the effects of these events.

Module 32—Events after the End of the Reporting Period

Answer to case study 1

Event 1

Section 21 requires that a provision is recognised when an entity has an obligation at the reporting date as a result of past event, that it is probable that the entity will be required to settle and that the amount of the obligation can be estimated reliably (see paragraph 21.4). In the absence of other relevant facts, even though the assessment happened after the reporting period, the assessment confirms that a liability existed at the end of the reporting period. Because this is an adjusting event, the entity should recognise a provision in its 20X7 financial statements.

Accounting entries in respect of the year ended 31 December 20X7

Dr	Profit or loss (expense)	CU120,000	
	Cr Provisions (liability)		CU120,000

To recognise provision arising from tax dispute.

Event 2

An amount that becomes receivable as a result of a favourable judgement after the reporting date is a non-adjusting event (see paragraph 32.7(b)). Such favourable judgement qualifies as a contingent asset at the reporting date. Applying the disclosure requirements in paragraphs 32.10 and 21.16 the entity will disclose the fact about the favourable judgement, its nature and estimated financial effect. No accounting entry is necessary in the 20X7 financial statements of Entity A.

Event 3

The subsequent bankruptcy of the customer is a non-adjusting event. This is because, in the absence of other relevant facts, the event is not an indication of conditions existing at the end of the reporting period. The recoverability of the entity's receivable becomes doubtful only when the customer filed for bankruptcy because of a specific event, the flood, that occurred after the reporting period. Depending on other relevant facts and circumstances, disclosure requirements in paragraph 32.10 may apply. No accounting entry is necessary in the 20X7 financial statements of Entity A.

Event 4

The entering into a financial guarantee after the reporting period does not affect an entity's financial condition as at the end of that reporting period. This is a non-adjusting event. Depending on the entity's assessment (whether disclosure of the financial guarantee and the finance arrangement is useful for economic decision-making of its financial statement users) disclosure requirements in paragraph 32.10 may apply.

At the consolidated financial statements level, the financial guarantee contract between Entity A and its subsidiary is irrelevant. If the separate financial statements are prepared, no accounting entry is necessary in the 20X7 financial statements of Entity A.

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 remaining useful life of the warehouse from the date the fire occurred was reduced from 30 years to 20 years;
- the straight-line method remained the appropriate depreciation method; and
- 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% 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 net assets 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 partly to fund the acquisition of SME K.

On 27 February 20X5 SME J declared a final dividend of CU500,000 (that is, 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 for issue by the directors on 28 February 20X5.

On 1 January 20X5 a fire caused structural damage to one of the Company's warehouses. The warehouse is not insured and the estimated impairment loss as a result of the fire is CU266,667[(b)]. Accordingly, the Company revised the remaining useful life of the warehouse and has reduced it from 26 years to 16 years. Furthermore, CU100,000 worth of inventory was destroyed in the fire. The reimbursement from the inventory insurance is estimated to be CU50,000.

The impairment losses and change in useful life will be recognised in the financial statements for the year ending 31 December 20X5.

On 31 January 20X5 the Company acquired 60% 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.

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

On 27 February 20X5 the Company 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. Alternatively, the entity may disclose the date when the financial statements were authorised for issue in an earlier or other notes (for example, Note 1) and present the disclosure on events after the reporting period in the related note(s) about the same items (for example, the warehouse fire may be disclosed within the note on property, plant and equipment).

(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.