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LKAS 10 – Events After Reporting Period

AAT Level II

FCA - Financial & Costing Accounting

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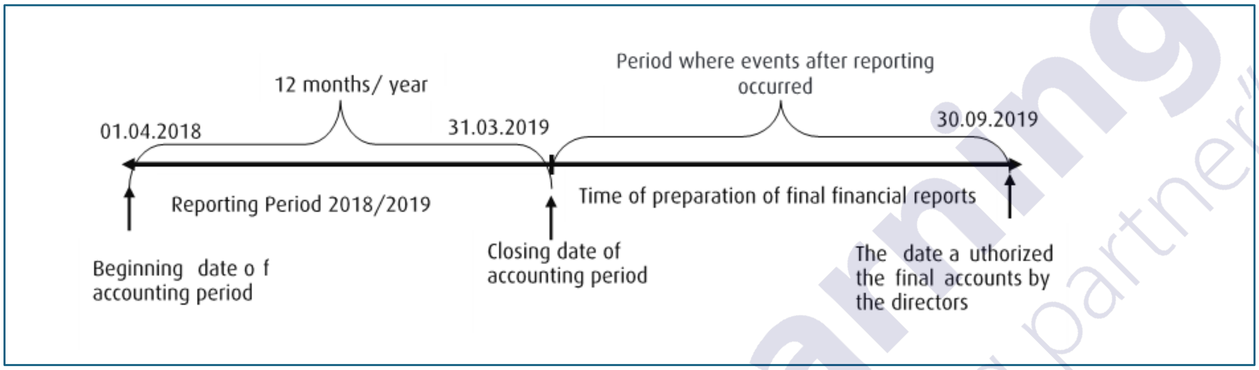
LKAS 10 – Events after reporting period

Definition

Events after the reporting period are those events, both favourable and unfavourable, that occur between the reporting date and the date on which the financial statements are authorized for issue.



There are two types of events after the reporting period:

1. adjusting events
2. non-adjusting events

Adjusting Events	**Non-Adjusting events**
Adjusting events provide evidence of conditions that existed at the reporting date. Adjusting events result in changes to the figures recognised in the financial statements Ex: 01. **the sale of inventory after the reporting date**- this gives evidence about its net realisable value at the reporting date. 02. **the bankruptcy of a customer after the reporting date**- this confirms that an allowance is required against an outstanding balance at the reporting date.	Non-adjusting events are those that are indicative of conditions that arose after the reporting period. Non-adjusting events do not affect any items in the statement of financial position or the statement of profit or loss and other comprehensive income. However, for material non-adjusting events, the following should be disclosed: • the nature of the event • an estimate of the financial effect, or a statement that such an estimate cannot be made. Ex:

03. the discovery of fraud or errors – this shows that the financial statements are incorrect. 04. the settlement after the reporting period of a court case - this confirms that the entity had a present obligation at the reporting date. 05. Determination of a cost of assets purchased or sold before the reporting period. 06. Profit sharing or bonus payments to employees – Entity has present obligation (Legal/Constructive) as t the reporting date.	01. A major business combination after the reporting date or the disposal of a major subsidiary. 02. announcing a plan after the reporting date to discontinue an operation 03. major purchases and disposals of assets after the reporting date. 04. destruction of a major production plant by a fire after the reporting date. 05. announcing or commencing a major restructuring after the reporting date. 06. abnormally large changes after the reporting date in asset prices or foreign exchange rates. 07. equity dividends declared or proposed after the reporting date. (Scrip dividend should adjust as per LKAS 33 para 64)

<u>Going concern issues arising after the reporting date</u>

There is an exception to the rule that the financial statements reflect conditions at the reporting date. If, after the reporting date, management decides to liquidate the entity or cease trading (or decides that it has no realistic alternative to these actions), the financial statements cannot be prepared on a going concern basis.

- In accordance with LKAS 1, management must disclose any material uncertainties relating to events or conditions that cast significant doubt upon an entity's ability to continue trading. This applies if the events have arisen since the reporting period.
- If the going concern assumption is no longer appropriate, the effect is so pervasive that there must be a fundamental change in the basis of accounting
- If the financial statements are not prepared on a going concern basis, that fact must be disclosed.

Going concern considerations

The following are indicators of a going concern uncertainty:

01. A lack of cash and cash equivalents
02. Increased levels of overdrafts and other forms of short-term borrowings
03. Major debt repayments due in the next 12 months
04. A rise in payables days – this may suggest that payments to suppliers are being delayed Increased levels of gearing
05. Negative cash flows, particularly in relation to operating activities
06. Disclosures or provisions relating to material legal claims
07. Large impairment losses – this might suggest a decline in demand or productivity