Educational Material on Indian Accounting Standard (Ind AS) 10 Events after the Reporting Period

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

The Institute of Chartered Accountants of India (ICAI), being the premier accounting body in the country, has always played a very influential role in taking Indian financial reporting system to newer heights and achieving international benchmarks by taking necessary initiatives from time to time. Moving forward in this direction, the ICAI has formulated IFRS-converged Indian Accounting Standards (Ind AS), which have been notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015, after recommendation of the National Advisory Committee on Accounting Standards.

In addition to formulation of IFRS-converged Ind AS, the ICAI through its Ind AS (IFRS) Implementation Committee, is working to provide necessary support and guidance to members and other stakeholders for smooth implementation of Ind AS. In accordance with its Terms of Reference, the Ind AS (IFRS) Implementation Committee is actively engaged in formulation of Educational Materials on Ind ASs to enable members and others concerned to implement Ind ASs in the same spirit in which these have been formulated. Moving forward in this direction, the Ind AS (IFRS) Implementation Committee has formulated Educational Material on Ind AS 10, *Events after the Reporting Period*.

I would like to place on record my appreciation for the sincere efforts of the entire Committee, especially to CA. S. B. Zaware, Chairman and CA. Vijay Kumar Gupta, Vice Chairman, for bringing out this publication.

I would also like to thank Dr. Avinash Chander, Technical Director, ICAI, for his technical support and guidance, CA. Parminder Kaur, Secretary, Ind AS (IFRS) Implementation Committee and other officers for their technical and administrative support in bringing out this publication.

I sincerely believe that this Educational Material will be of immense use to the members and others concerned in proper understanding and implementing the Standard.

New Delhi — **CA. Manoj Fadnis**

June 17, 2015 — ***President, ICAI***

Preface

In the impending era of IFRS environment, in line with move of various global jurisdictions towards International Financial Reporting Standards (IFRS), where India has also decided to converge with IFRS. With notification of IFRS-converged Indian Accounting Standards (Ind AS) by Ministry of Corporate Affairs (MCA), a great need has been felt to educate the members and other stakeholders about these Standards. The Ind AS (IFRS) Implementation Committee of the ICAI is working relentlessly to provide guidance to the members and other stakeholders on these notified Ind ASs. For this purpose, Educational Materials on Ind ASs covering various issues are being formulated by the Committee. The Committee is also conducting IFRS Certificate Course, various workshops, seminars, awareness programmes, webcasts etc., to impart knowledge about Ind ASs/IFRSs.

I am glad that working in accordance with its objectives, the Committee has brought out this Educational Material on Ind AS 10, *Events after the Reporting Period*.

The objective of Ind AS 10 is to prescribe when an entity should adjust its financial statements for events after the reporting period; and the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period. *Events after the reporting period* are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. These events are categorised in Ind AS 10 as adjusting events and non-adjusting events and accounting treatment has been prescribed accordingly.

This Educational Material contains summary of Ind AS 10 discussing the key requirements of the Standard and the Frequently Asked Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard, such as, examples of events of adjusting and non-adjusting events, date of approval, disclosures of certain non-adjusting events, treatment of proposed and interim dividends etc.

I may mention that the views expressed in this publication are the views of the Ind AS (IFRS) Implementation Committee and not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I would like to convey my sincere thanks to our Honourable President CA. Manoj Fadnis and Vice-President CA. M. Devaraja Reddy for providing me opportunity of bringing out this Educational Material. I am also thankful to CA. Vijay Kumar Gupta, Vice Chairman, Ind AS (IFRS) Implementation Committee for his efforts in all the endeavours of the Committee. I would like to place on record my sincere thanks to CA. Girish Agarwal, CA. Abhishek Parwal and CA. Aseem Trivedi for their invaluable inputs in formulation of the draft of this publication. I would also like to thank my Council colleagues, co-opted members and special invitees on the Ind AS (IFRS) Implementation Committee for their invaluable suggestions and inputs in finalising this publication.

I hope this Educational Material will be of immense use in understanding the provisions of Ind AS 10 and in implementation of the same.

New Delhi
June 24, 2015

CA. S. B. Zaware
Chairman
Ind AS (IFRS) Implementation Committee

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I Ind AS 10 - Summary

Introduction

There is always a time lag between the end of the reporting period and the date on which the financial statements are approved for issue. Thus, a question arises should the events that occur between the said two dates have an impact on the financial statements. If yes, to what extent? How should these be reflected? Should these be disclosed? Indian Accounting Standard (Ind AS) 10, *Events after the Reporting Period,* provides guidance on these and similar issues.

Objective

The following are objectives of this Standard:

- it prescribes when an entity should adjust its financial statements for events that occur after the reporting period;
- the disclosures that an entity should make with respect to:
  - the date when the financial statements were approved for issue; and
  - events after the reporting period;

Further, if events after the reporting period lead to a conclusion that the going concern assumption is not appropriate for the entity, the Standard requires that an entity should not prepare its financial statements on a going concern basis.

Scope

This Standard has to be applied in all cases in the accounting for, and disclosure of, events after the reporting period.

Definitions

The following definition is relevant for the purpose of understanding of this Standard.

Events after the reporting period are:

- those events, favourable and unfavourable,
- that occur between:
  - the end of the reporting period; and
  - the date when the financial statements are approved:
    - by the Board of Directors in case of a company; and
    - by the corresponding approving authority in case of any other entity for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period (known as 'adjusting events after the reporting period'); and
- those that are indicative of conditions that arose after the reporting period (known as 'non-adjusting events after the reporting period').

However, there is an exception to the above principle. In case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees not to demand payment as a consequence of breach, it shall be considered as an adjusting event (carve-out in Ind AS 10).

Adjusting events after the reporting period

Adjusting events are those events that provide evidence of conditions that existed at the end of the reporting period. The word 'adjusting' in the aforesaid sentence itself makes it clear that the effect of these events is to be adjusted in the financial statements. The financial statements require modification because of these events.

Accordingly, an entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

The following are some examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised.

Example 1: Settlement of a court case - The settlement arrived at after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. In this case, the entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of Ind AS 37.

Example 2: Bankruptcy of a customer – An allowance for bad debt of 50% of the amount due from a customer was made at the end of the reporting period in view of expected credit impairment. Subsequent liquidation order on the customer indicates that nothing could be received from the customer. This confirms that the customer was credit impaired at the end of the reporting period.

Updating disclosures about conditions at the end of the reporting period

Under its disclosure requirements, the Standard provides that in some cases an entity needs to update the disclosures in its financial statements to reflect the information received after the reporting period, even when the information does not affect the amounts that it recognises in the financial statements.

Non-adjusting events after the reporting period

Non–adjusting events are those events that are indicative of conditions that arose after the reporting period. The word 'non-adjusting' in the aforesaid sentence itself makes it clear that the effect of these events is not to be adjusted in the financial statements. The financial statements require no modification because of these events.

Accordingly, an entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

Thus, with respect to a non–adjusting event, an entity should ensure that it does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

However, if non-adjusting events after the reporting period are material and their non-disclosure could influence the economic decisions that users make on the basis of the financial statements, then it shall disclose the following for each material category of non-adjusting event after the reporting period:

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

The following are some examples of non-adjusting events after the reporting period that would generally result in disclosure:

- announcing a plan to discontinue an operation;
- major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;
- the destruction of a major production plant by a fire after the reporting period;
- announcing, or commencing the implementation of, a major restructuring (see Ind AS 37);
- abnormally large changes after the reporting period in asset prices or foreign exchange rates;

Dividends

The Standard requires that if an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, *Financial Instruments: Presentation*, after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

The dividends, declared after the reporting period but before the financial statements are approved for issue, are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are however, disclosed in the notes in accordance with Ind AS 1, *Presentation of Financial Statements*.

Going concern

One of the fundamental assumptions in preparation of the financial statements is the going concern assumption. An entity may need to consider the appropriateness of this assumption in view of indication provided by deterioration in operating results and financial position after the reporting period. It may come to the conclusion that the effects of these events are so wide and pervasive on the financial position that the going concern assumption is no longer valid. It requires a fundamental change in the basis of accounting rather than adjustments to the amounts recognised with the original basis of accounting.

Thus, an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

It may be noted that the entity shall make disclosures as specified in Ind AS 1, *Presentation of Financial Statements,* if:

- the financial statements are not prepared on a going concern basis; or
- the management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These events or conditions requiring disclosure may arise after the reporting period.

Date when financial statements are approved for issue

The Standard requires an entity to disclose:

- this date when the financial statements were approved for issue;
- who gave this approval; and
- the fact that the entity's owners or others have the power to modify the financial statements after issue.

These disclosures are necessary as it is important for users to know when the financial statements were approved for issue as the financial statements do not reflect the events after this date.

There is no single identified process that could be laid down for approval of financial statements. It depends upon the management structure, statutory requirements and the procedures that are followed in preparing and finalising the financial statements.

Appendix A of Ind AS 10 provides guidance with regard to distribution of non-cash assets as dividends to owners. The Appendix prescribes that liability to pay such a dividend should be recognised when it is appropriately authorised and is no longer at the discretion of the entity. This liability should be measured at the fair value of assets to be distributed. Any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be recognised in profit or loss when an entity settles the dividend payable.

II Frequently Asked Questions

Question 1

What is the date of approval for issue of the financial statements prepared for the reporting period from April 1, 2016 to March 31, 2017, in a situation where following dates are available?

Completion of preparation of financial statements	May 28, 2017
Board reviews and approves for issue	June 19, 2017
Available to shareholders	July 01, 2017
Annual General Meeting	September 15, 2017
Filed with regulatory authority	October 16, 2017

Response

As per Ind AS 10 the date of approval for issue of financial statements is the date on which the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity. Accordingly, in the instant case, the date of approval is the date on which the financial statements are approved by the Board of Directors of the company, i.e., June 19, 2017.

In the case of an entity other than a company, the date of approval will be the date when the relevant approving authority of such entity approves the financial statements for issue. For example, in case of a partnership firm, the date when the partner(s) of the firm approve(s) the financial statements.

Question 2

ABC Ltd. prepared interim financial report for the quarter ending June 30, 2015. The interim financial report was approved for issue by the Board of Directors on July 15, 2015. Whether events occurring between end of the interim financial report and date of approval by Board of Directors, i.e., events between July 1, 2015 and July 15, 2015 that provide evidence of conditions that existed at the end of the interim reporting period shall be adjusted in the interim financial report ending June 30, 2015?

Response

Paragraph 3 of Ind AS 10, *Events after the Reporting Period, inter alia*, defines 'Events after the reporting period' as those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

What is reporting period has not been dealt with in Ind AS 10. Absence of any specific guidance regarding reporting period implies that any term for which reporting is done by preparing financial statements is the reporting period for the purpose of Ind AS 10. Accordingly, financial reporting done for interim period by preparing either complete set of financial statements or by preparing condensed financial statements will be treated as reporting period for the purpose of Ind AS 10.

Paragraph 2 of Ind AS 34, *Interim Financial Reporting, inter alia,* provides that each financial report, annual or interim, is evaluated on its own for conformity with Ind ASs. Further, paragraph 19 of Ind AS 34, provides that an interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs.

In accordance with the above, an entity describing that its interim financial report is in compliance with Ind ASs, has to comply with all the Ind ASs including Ind AS 10.

In order to comply with the requirements of Ind AS 10, each interim financial report should be adjusted for the **adjusting events** occurring between end of the interim financial report and the date of approval by Board of Directors. Therefore, in the instant case, events occurring between July 1, 2015 and July 15, 2015 that provide evidence of conditions that existed at the end of the interim reporting period should be adjusted in the interim financial report ending June 30, 2015.

Question 3

The Board of Directors of ABC Ltd. approved the financial statements for the reporting period 2016-17 for issue on June 15, 2017. The management of ABC Ltd. discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently approved by the Board of Directors on June 30, 2017. What is the date of approval for issue as per Ind AS 10 in the given case?

Response

Date of approval is the date on which the financial statements are approved by the Board of Directors in case of a company, and by the corresponding approving authority in case of any other entity for issue.

In the given case, there are two dates of approval by Board of Directors. The financial statements were reopened for further adjustments subsequent to initial approval. The date of approval should be taken as the date on which financial statements are finally approved by the Board of Directors. Therefore, in the given case, the date of approval for issue as per Ind AS 10 should be considered as June 30, 2017.

Question 4

ABC Ltd. received a demand notice on June 15, 2017 for an additional amount of Rs. 28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same. The financial statements for the year 2016-17 are approved on August 10, 2017. In July, 2017, the company has appealed against the demand of Rs. 28,00,000 and the company has expected that the demand would be settled at Rs. 15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2016-17. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

Response

Ind AS 10 defines '*Events after the Reporting Period*' as follows:

> *"**Events after the reporting period*** **are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:**
>
> **(a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and**
>
> **(b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).**
>
> **.................."**

In the instant case, the demand notice has been received on June 15, 2017, which is between the end of the reporting period and the date of approval of financial statements. Therefore, it is an event after the reporting period. This demand for additional amount has been raised because of higher rate of excise duty levied by the Excise Department in respect of goods already manufactured during the reporting period. Accordingly, condition exists on March 31, 2017, as the goods have been manufactured during the reporting on which additional excise duty has been levied and this event has been confirmed by the receipt of demand notice. Therefore, it is an adjusting event.

In accordance with the principles of Ind AS 37, the company should make a provision in the financial statements for the year 2016-17, at best estimate of the expenditure to be incurred, i.e., Rs. 15,00,000.

Question 5

While preparing its financial statements for the year ended 31st March, 2017, a company made a general provision for bad debts @ 5% of its debtors. In the last week of February 2017 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. Considering the event of earthquake, the company made a provision @50% of the amount receivable from that debtor apart from the general provision of 5% on remaining debtors. In April 2017 the debtor became bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2017?

Would the answer be different if earthquake had taken place after March 31, 2017, and therefore, XYZ Ltd. did not make any specific provision in context that debtor and made only general provision for bad debts @5% on total debtors?

Response

As per the definition of '*Events after the Reporting Period*' and paragraph 8 of Ind AS 10, *Events after the Reporting Period*, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the earthquake took place before the end of the reporting period, i.e., in February 2017. Therefore, the condition exists at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to Rs. 2 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended March 31, 2017. Since provision for bad debts on account of amount due from that particular debtor was made @ 50%, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt.

In case, the earthquake had taken place after the end of the reporting period, i.e., after March 31, 2017, and XYZ Ltd. had not made any specific provision for the debtor who was declared bankrupt later on, since the earthquake occurred after the end of the reporting period no condition existed at the end of the reporting period. The company had made only general provision for bad debts in the ordinary business course and not to recognise the catastrophic situation of an earthquake. Accordingly, bankruptcy of the debtor in this case is a non-adjusting event. With regard to non-adjusting events, paragraph 21 may be noted:

"21 If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

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

If the amount of bad debt is considered to be material, the nature of this non-adjusting event, i.e., event of bankruptcy of the debtor should be disclosed along with the estimated financial effect of the same in the financial statements.

Question 6

XY Ltd had taken a large-sized civil construction contract, for a public sector undertaking, valued at Rs. 200 Crores. Execution of the project started during 2016-17, and continued in the next financial year also. During the course of execution of the work on May 29, 2017, the company found while raising the foundation work that it had met a rocky surface and cost of contract would go up by an extra Rs. 50 crore, which would not be recoverable from the Contractee as per the terms of the contract. The Company's financial year ended on March 31, 2017, and the financial statements were considered and approved by the Board of Directors on June 15, 2017. How will you treat the above in the financial statements for the year ended 31st March 2017?

Response

In the instant case, the execution of work started during the F.Y. 2016-17 and the rocky surface was there at the end of the reporting period, though the existence of rocky surface is confirmed after the end of the reporting period as a result of which it became evident that the cost may escalate by Rs. 50 Crores. In accordance with the definition of 'Events after the Reporting Period', since the rocky surface was there, the condition was existing at the end of the reporting period, therefore, it is an adjusting event. The cost of the project and profit should be accounted for accordingly.

Question 7

A Ltd. was required to pay penalty for a breach in the performance of a contract. A Ltd. believed that the penalty was payable at a lower amount than the amount demanded by the other party. A Ltd. created provision for the penalty but also approached the arbitrator with a submission that the case may be dismissed with costs. A Ltd. prepared the financial statements for the year 2016-17, which were approved in July 2017. The arbitrator, in June 2017, awarded the case in favour of A Ltd. As a result of the award of the arbitrator, the provision earlier made by A Ltd. was required to be reduced. The arbitrator also decided that cost of the case should be borne by the other party. Now, whether A Ltd. is required to remeasure its provision and what would be the accounting treatment of the cost that will be recovered by A Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 2016-17?

Response

In the instant case, A Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because A Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator. Therefore, it is an adjusting event. Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period.

As far as the recovery of the cost by A Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period. With regard to contingent asset, the following requirement of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, may be noted:

> "35 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset."

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain. In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 2017-18. Accordingly, the recovery of cost should be recognised in the financial year 2017-18.

Question 8

A company manufacturing and supplying process control equipments is entitled to duty draw back if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 2016-17 the company has exceeded the specified limit of turnover by the end of the reporting period but the application for duty drawback is filed on April 20, 2017, which is after the stipulated time of 15 days of meeting the turnover condition. Duty drawback has been credited by the Department on June 28, 2017 and financial statements have been approved by the Board of Directors of the company on July 26, 2017. Whether duty drawback credit should be treated as an adjusting event?

Response

In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty draw back but the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback is discretionary in the hands of the Department. Accordingly, the duty draw back credit is a contingent asset as at the end of the reporting period, which may be realised if the Department credits the same.

With regard to contingent asset, the following requirement of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, may be noted:

> "35 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset."

In accordance with the above, the duty draw back credit which was contingent asset for the F.Y. 2016-17 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 2017-18.

Question 9

XYZ Ltd. sells goods to its customer with a promise to give discount of 5% on list price of the goods provided that the payments are received from customer within 15 days. XYZ Ltd. sold goods of Rs. 5 lakhs to ABC Ltd. between March 17, 2017 and March 31, 2017. ABC Ltd. paid the dues by April 15, 2017 with respect to sales made between March 17, 2017 and March 31, 2017. Financial statements were approved for issue by Board of Directors on May 31, 2017. State whether discount will be adjusted from the sales at the end of the reporting period.

Response

As per Ind AS 115, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

In the instant case, the condition that sales have been made exists at the end of the reporting period and the receipt of payment with 15 days time after the end of the reporting period and before the approval of the financial statements confirms that the discount is to be provided on those sales. Therefore, it is an adjusting event. Accordingly, XYZ Ltd. should adjust the sales made to ABC Ltd. with respect to discount of 5% on the list price of the goods.

Question 10

Is there any exception to the principle that adjusting events are those that provide evidence of conditions that existed at the end of the reporting period?

Response

In accordance with the change made in Ind AS 1 to clarify that long term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue, an exception has been provided to the adjusting events in Ind AS 10. As per the exception, in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.

Question 11

Whether the fraud related to 2014-15 discovered after the end of the reporting period but before the date of approval of financial statements for 2016-17 is an adjusting event?

Response

In the instant case, the fraud is discovered after the end of the reporting period of 2016-17, which related to F.Y. 2014-15. Since the fraud has taken place before the end of the reporting period, the condition was existing which has been confirmed by the detection of the same after the end of the reporting period but before the approval of financial statements. Therefore, it is an adjusting event.

Moreover, Ind AS 10 in paragraph 9, specifically provides that the discovery of fraud or error after the end of the reporting period, that shows that financial statements are incorrect, is an adjusting event.

Such a discovery of fraud should be accounted for in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if it meets the definition of prior period error.

Question 12

X Ltd. was having investment in form of equity shares in another company as at the end of the reporting period, i.e., March 31, 2017. After the end of the reporting period but before the approval of the financial statements it has been found that value of investment was fraudulently inflated by committing a computation error. Whether such event should be adjusted in the financial statements for the year 2016-17?

Response

Since it has been detected that a fraud has been made by committing an intentional error and as a result of the same financial statements present an incorrect picture, which has been detected after the end of the reporting period but before the approval of the financial statements. The same is an adjusting event. Accordingly, the value of investments in the financial statements should be adjusted for the fraudulent error in computation of value of investments.

Question 13

Certain significant non-adjusting events occurring after the end of the reporting period are required to be disclosed in the Directors' Report under existing Indian GAAP. What are the requirements under Ind AS 10 in this regard?

Response

As per AS 4, *Contingencies and Events Occurring After the Balance Sheet Date*, significant non-adjusting events may require a disclosure in the report of the approving authority to enable users of financial statement to make proper evaluations and decisions.

However, Paragraph 21 of Ind AS 10 requires that if non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

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

Therefore, under Ind AS such material non-adjusting events are required to be disclosed in the financial statements itself and not only in the report of approving authority, i.e., Directors' Report.

Question 14

What is the treatment of Proposed Dividend under Ind AS 10?

Response

If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists for that liability as at the end of the reporting period. Such dividends are disclosed in the notes in accordance with Ind AS 1, *Presentation of Financial Statements*.

An entity's past practice of paying dividends does not give rise to a liability to pay dividends.

Question 15

How treatment of interim dividend declared and paid during financial year beginning from April 1, 2016 and ending on March 31, 2017 is different from the dividend proposed after March 31, 2017?

Response

As discussed in FAQ 14, if an entity declares dividends to holders of equity instruments after the end of the reporting period, the entity should not recognise those dividends as a liability at the end of the reporting period because no obligation exists at the end of the reporting period.

However, if interim dividend is declared and paid before the end of the reporting period, the same should be recognised as a distribution to equity shareholders in the financial statements for the F.Y. 2016-17.

Question 16

What would be the treatment for dividends declared to redeemable preference shareholders after the reporting period but before the financial statements are approved for issue for the year 2016-17. Whether Ind AS 10 prescribes any accounting treatment for such dividends?

Response

Paragraph 12 of Ind AS 10 prescribes accounting treatment for dividends declared to holders of equity instruments. If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, *Financial Instruments: Presentations*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

However, Ind AS 10 does not prescribe accounting treatment for dividends declared to redeemable preference shareholders. As per the principles of Ind AS 32, *Financial Instruments: Presentation*, a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Thus, dividend payments to such preference shares are recognised as expense in the same way as interest on a bond. Since interest will be charged on time basis, the requirements of Ind AS 10 regarding date of declaration of dividend not relevant for its recognition.

Question 17

Company XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017. Whether it is appropriate to prepare financial statements on going concern basis?

Response

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follow:

"14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting."

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

Question 18

In the plant of PQR Ltd., there was a fire on 10.05.2017 in which the entire plant was damaged and the loss of Rs. 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of Rs. 27,00,000 is expected. The financial statements for the year ending 31.03.2017 were approved by the Board of Directors on 12th June 2017. Show how should it be disclosed?

Response

In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with paragraph 21 of Ind AS 10, disclosures regarding non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, since there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the F.Y.2016-17 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31.03.2017.

Appendix I

Note: The purpose of this Appendix is to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 10 and the corresponding International Accounting Standard (IAS) 10, Events after the Reporting Period, and IFRIC 17, Distributions of Non-cash Assets to Owners, issued by the International Accounting Standards Board.

Major differences between Ind AS 10, *Events after the Reporting Period* and IAS 10, *Events after the Reporting Period,* and IFRIC 17, *Distribution of Non-cash Assets to Owners*

1 Different terminology is used in this standard, eg, the term 'balance sheet' is used instead of 'Statement of financial position'. The words 'approval of the financial statements for issue' have been used instead of 'authorisation of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.

2 Consequent to changes made in Ind AS 1, it has been provided in the definition of 'Events after the reporting period' that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.

Appendix II

Note: The purpose of this Appendix is to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 10, Events after the Reporting Period, and Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date.

Major differences between Ind AS 10, *Events after the Reporting Period*, and AS 4, *Contingencies and Events Occurring After the Balance Sheet Date*

1 In Ind AS 10, material non-adjusting events are required to be disclosed in the financial statements, whereas the existing AS 4 requires the same to be disclosed in the report of approving authority.

2 As per Ind AS 10 dividend proposed or declared after the reporting period, cannot be recognised as a liability in the financial statements because it does not meet the criteria of a present obligation as per Ind AS 37. Such dividend is required to be disclosed in the notes in the financial statements as per Ind AS 1, whereas as per the existing AS 4 the same is required to be recognised in financial statements because of the requirements prescribed in the former Schedule VI to the Companies Act, 1956.

3 If, after the reporting date, it is determined that the fundamental accounting assumption of going concern is no longer appropriate, Ind AS 10 requires a fundamental change in the basis of accounting. Whereas existing AS 4 requires assets and liabilities to be adjusted for events occurring after the balance sheet date that indicate that the fundamental accounting assumption of going concern is not appropriate.

In this regard, Ind AS 10 refers to Ind AS 1, which requires an entity to make the following disclosures:

- disclose the fact that the financial statements are not prepared on a going concern basis together with the basis on which the financial statements are prepared

- state the reason why the entity is not regarded as a going concern.

Existing AS 4 does not require any such disclosure, However, existing AS 1 requires the disclosure of the fact in case going concern assumption is not followed.

4 Consequent to changes made in Ind AS 1, it has been provided in the definition of 'Events after the reporting period' that in case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.

5 Ind AS 10 includes an Appendix *Distribution of Non-cash Assets to Owners* which deals, *inter alia*, with when to recognise dividends payable to its owners.

Notes

Notes