Accounting Standard for Local Bodies (ASLB) 14

# Events After the Reporting Date

## Contents

Accounting Standard for Local Bodies (ASLB) 14

# Events After the Reporting Date

*(This Accounting Standard includes paragraphs set in* ***bold italic*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies*[1]*).*

The Accounting Standard for Local Bodies (ASLB) 14, *'Events After the Reporting Date'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

## Objective

1. The objective of this Standard is to prescribe:

   (a) When an entity should adjust its financial statements for events after the reporting date; and

   (b) The disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

---

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

## Scope

***2. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the accounting for, and disclosure of, events after the reporting date.***

***3. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[3].***

4. [Refer to Appendix 1]

## Definitions

***5. The following terms are used in this Standard with the meanings specified:***

***<u>Events after the reporting date</u> are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:***

> ***(a) Those that provide evidence of conditions that existed at the reporting date <u>(adjusting events after the reporting date)</u>; and***
>
> ***(b) Those that are indicative of conditions that arose after the reporting date <u>(non-adjusting events after the reporting date)</u>.***

***<u>Reporting date</u> means the date of the last day of the reporting period to which the financial statements relate.***

***Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.***

## Authorising the Financial Statements for Issue

6. In order to determine which events satisfy the definition of events after

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorised for issue. The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorisation for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalise those statements for issue.

7. The process involved in preparing and authorising the financial statements for issue may vary for different types of entities within and across jurisdictions. It can depend upon the nature of the entity, the governing body structure, the statutory requirements relating to that entity and the procedures followed in preparing and finalising the financial statements. In some cases, the governing body of an entity is required to issue its financial statements to a standing committee for approval. In such cases, the financial statements are authorised to issue when the governing body authorises them for issue to the standing committee.

**Example**

On 18 March, 20X9, the governing body of an entity authorises financial statements for issue to its standing committee. The standing committee approves the financial statements on 26 March, 20X9. The financial statements then filed with the State Government on 17 May, 20X9.

*The financial statements authorised for issue on 18 March, 20X9 (date of governing body's authorisation for issue to the standing committee).*

8. [Refer to Appendix 1]

## Recognition and Measurement

9. In the period between the reporting date and the date of authorisation for issue, elected government including local body may announce its intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition

of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

## Adjusting Events After the Reporting Date

***10. An entity should adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.***

11. The following are examples of adjusting events after the reporting date 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 reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognised provision related to this court case in accordance with ASLB 19, '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 relevant paragraph of the Accounting Standard for Local Bodies 19, *'Provisions, Contingent Liabilities and Contingent Assets'*.

(b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the insolvency of a debtor which occurs after the reporting date may often confirm that a doubt of recovery existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and

(ii) the sale of inventories after the reporting date may give evidence about their net realisable value (NRV) at the reporting date;

(c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

(d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another entity under a revenue sharing agreement in place during the reporting period;

(e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and

(f) The discovery of fraud or errors that show that the financial statements were incorrect.

## Non-adjusting Events After the Reporting Date

***12. An entity should not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.***

13. The following are examples of non-adjusting events after the reporting date:

(a) The insolvency of a debtor which occurs after the reporting date where no condition existed at the reporting date in respect of that debtor and, the entity does not adjust the carrying amount of the receivable amount. For example, insolvency of the debtor occurred due to his premises and other assets destroyed in fire after the reporting date.

(b) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorised. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore, despite its policy of regularly revaluing, an entity would not adjust the amounts recognised in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure under paragraph 29; and

(c) Where an entity charged with operating particular community service programmes decides after the reporting date, but before the financial statements are authorised, to provide/distribute additional benefits directly or indirectly to participants in those programmes. The entity would not adjust the expenses recognised in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph 29.

## Dividends or Similar Distributions

***14. If an entity declares dividends or similar distributions after the reporting date, the entity should not recognise those distributions as a liability at the reporting date.***

15. Dividends may arise in the local body when, for example, a local body controls and consolidates the financial statements of a transport undertaking that has outside ownership interests to whom it pays dividends. In addition, some local bodies adopt a financial management framework, for example 'public private partnership' models, that require them to pay income distributions to their controlling entity, such as the state government.

16. If dividends or similar distributions to owners are declared (i.e. the dividends or similar distributions are appropriately authorised and no longer at the discretion of the entity) after the reporting date but before the financial statements are authorised for issue, the dividends or similar distributions are not recognised as a liability at the reporting date because they do not meet the criteria of a present obligation in the ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'*. Such dividends or similar distributions are disclosed in the notes in accordance with the ASLB 1, *'Presentation of Financial Statements'*. Dividends and similar distributions do not include a return of capital.

## Going Concern

17. The determination of whether the going concern assumption is appropriate needs to be considered by each reporting entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a local body as a whole. For example, an individual entity e.g., transport undertaking may not be a going concern because the local body of which it forms part has decided to transfer all its activities to another entity. However, this restructuring has no impact upon the assessment of going concern for the local body itself.

*18. An entity should not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so.*

19. In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organisational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

20. In the case of entities whose operations are substantially budget-funded, going concern issues generally only arise if the government announces its intention to cease funding the entity.

21. Some entities, may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

22. If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another entity, sold or liquidated.

Judgment is required in determining whether a change in the carrying value of assets and liabilities is required.

23. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.

24. Accounting Standard for Local Bodies (ASLB) 1, '*Presentation of Financial Statements'* requires certain disclosures if:

(a) The financial statements are not prepared on a going concern basis. ASLB 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or

(b) Those responsible for the preparation of the financial statements are 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. The events or conditions requiring disclosure may arise after the reporting date. ASLB 1 requires such uncertainties to be disclosed.

## Restructuring

25. Where a restructuring announced after the reporting date meets the definition of a non-adjustable event, the appropriate disclosures are made in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring can be found in ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'*. Simply because a restructuring involves the disposal of a component of an entity this does not in itself bring into question the entity's ability to continue as a going concern. However, where a restructuring announced after the reporting date means that an entity is no longer a going concern, the nature and amount of assets and liabilities recognised may change.

# Disclosure

## Disclosure of Date of Authorisation

***26. An entity should disclose the date when the financial statements were authorised and who gave that authorisation.***

27. It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date.

## Updating Disclosure about Conditions at the Reporting Date

***28. If an entity receives information after the reporting date, but before the financial statements are authorised, about conditions that existed at the reporting date, the entity should update disclosures that relate to these conditions, in the light of the new information.***

29. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorised, even when the information does not affect the amounts that the entity recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognise a provision an entity updates its disclosures about the contingent liability in the light of that evidence.

## Disclosure of Non-adjusting Events After the Reporting Date

***30. If non-adjusting events after the reporting date are material non disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity should disclose the following for each material category of non-adjusting event after the reporting date:***

> ***(a) The nature of the event; and***

***(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.***

31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

(a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since reporting date;

(b) The entity decides after reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programmes that it operates, and those additional benefits have a major impact on the entity;

(c) An acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;

(d) Announcing a plan to discontinue an operation or major programme, disposing of assets or settling liabilities attributable to a discontinued operation or major programme, or entering into binding agreements to sell such assets or settle such liabilities;

(e) Major purchases and disposals of assets;

(f) The destruction of a major building by a fire after the reporting date;

(g) Announcing, or commencing the implementation of, a major restructuring;

(h) The introduction of legislation to forgive loans made to entities or individuals as part of a programme;

(i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;

(j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities;

(k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and

(l) Commencing major litigation arising solely out of events that occurred after the reporting date.

32-34. [Refer to Appendix 1]

# Annexure 1

*Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 14, 'Events After the Reporting Date'.*

## Comparison with IPSAS 14, '*Events After the Reporting Date*'

### 1. Authorising the Financial Statements for issue

(i) IPSAS 14 includes the events occurring between the reporting date and the date when the financial statements are authorised for issue, even if those events occur after the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity or publication of other selected information relating to the financial statements. ASLB 14 presumes that the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity or publication of other selected information relating to the financial statements are made only after the date when the financial statements are authorised for issue.

(ii) IPSAS 14 contains additional commentary in its paragraph 7 on responsibility for authorizing the financial statements. ASLB 14 does not provide this commentary in view of the fact that the responsibility for authorisation of financial statements may differ in each state or local body and is not relevant so far local bodies in India are concerned.

(iii) IPSAS 14 contains additional commentary in its paragraph 8 on determining the date of authorisation of the financial statements for issue which are finally to be authorised for issue by another body and also this body may have the power to require changes in the audited financial statements. Since, ASLB 14 does not provide the same in view of the fact that ordinarily no such power to require changes in the audited financial statements is there in India so far local bodies are concerned, paragraph 8 has been deleted. However, the paragraph number has been retained in order to maintain consistency with the corresponding IPSAS 14.

2. IPSAS 14 contains additional commentary in its paragraph 27 on rare circumstances in which any persons or organisations have the authority to amend the financial statements after issuance. ASLB 14 does not provide this commentary presuming that no such requirements are applicable to local bodies in India.

**3. Other deleted paragraphs**

Paragraph 4 : Paragraph pertaining to Government Business Enterprises (GBEs) has been deleted as the same is not relevant for Local Bodies.

Paragraphs 32 & 33 : Paragraphs pertaining to effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned as per the '*Preface to the Accounting Standards for Local Bodies*'.