

International Accounting Standard 10

Events after the Balance Sheet Date

This revised Standard supersedes IAS 10 (revised 1999) *Events After the Balance Sheet Date* and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

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Events after the Balance Sheet Date

Objective

1. The objective of this Standard is to prescribe:
 - (a) when an entity should adjust its financial statements for events after the balance sheet 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 balance sheet date.

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

Scope

2. *This Standard shall be applied in the accounting for, and disclosure of, events after the balance sheet date.*

Definitions

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

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet 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 balance sheet date (adjusting events after the balance sheet date); and*
- (b) *those that are indicative of conditions that arose after the*

balance sheet date (non-adjusting events after the balance sheet date).

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

Example

The management of an entity completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorises them for issue. The entity announces its profit and selected other financial information on 19 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of board authorisation for issue).

6. In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board.

Example

On 18 March 20X2, the management of an entity authorises financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of management authorisation for issue to the supervisory board).

7. Events after the balance sheet date 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 of other selected financial information.

Recognition and Measurement

Adjusting Events after the Balance Sheet Date

8. *An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date.*
9. The following are examples of adjusting events after the balance sheet 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 balance sheet date of a court case that

confirms that the entity had a present obligation at the balance sheet date. The entity adjusts any previously recognised provision related to this court case in accordance with IAS 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 IAS 37.

- (b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, 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 balance sheet date usually confirms that a loss existed at the balance sheet date 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 balance sheet date may give evidence about their net realisable value at the balance sheet date.
- (c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date.
- (d) the determination after the balance sheet date of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date (see IAS 19 *Employee Benefits*).
- (e) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting Events after the Balance Sheet Date

- 10. *An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date.***
11. An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date 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 balance sheet date, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the balance sheet date, although it may need to give additional disclosure under paragraph 21.

Dividends

- 12. *If an entity declares dividends to holders of equity instruments (as defined in IAS 32 Financial Instruments: Disclosure and Presentation) after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date.***
13. If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the balance sheet date but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the balance sheet date because they do not meet the criteria of a present obligation in IAS 37. Such dividends are disclosed in the notes to the financial statements in accordance with IAS 1 *Presentation of Financial Statements*.

Going Concern

- 14.** *An entity shall not prepare its financial statements on a going concern basis if management determines after the balance sheet date 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 balance sheet date 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.
16. IAS 1 specifies required disclosures if:
- (a) the financial statements are not prepared on a going concern basis; or
 - (b) 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. The events or conditions requiring disclosure may arise after the balance sheet date.

Disclosure

Date of Authorisation for Issue

- 17.** *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.*
18. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating Disclosure about Conditions at the Balance Sheet

Date

19. *If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, it shall update disclosures that relate to those conditions, in the light of the new information.*
20. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the balance sheet date, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the balance sheet date about a contingent liability that existed at the balance sheet date. In addition to considering whether it should recognise or change a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting Events after the Balance Sheet Date

21. *If non-adjusting events after the balance sheet date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the balance sheet 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.*
22. The following are examples of non-adjusting events after the balance sheet date that would generally result in disclosure:
- (a) a major business combination after the balance sheet date (IAS 22 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;
 - (b) announcing a plan to discontinue an operation, disposing of assets or settling liabilities attributable to a discontinuing operation or entering into binding agreements to sell such

assets or settle such liabilities (see IAS 35 *Discontinuing Operations*);

- (c) major purchases and disposals of assets, or expropriation of major assets by government;
- (d) the destruction of a major production plant by a fire after the balance sheet date;
- (e) announcing, or commencing the implementation of, a major restructuring (see IAS 37);
- (f) major ordinary share transactions and potential ordinary share transactions after the balance sheet date (IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under IAS 33);
- (g) abnormally large changes after the balance sheet date in asset prices or foreign exchange rates;
- (h) changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 *Income Taxes*);
- (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
- (j) commencing major litigation arising solely out of events that occurred after the balance sheet date.

Effective Date

23. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

Withdrawal of IAS 10 (revised 1999)

24. This Standard supersedes IAS 10 *Events After the Balance Sheet Date* (revised in 1999).

Appendix

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

- A1. In IAS 22 *Business Combinations*, paragraph 97 is amended to read as follows:
97. Business combinations effected after the balance sheet date and before the date on which the financial statements of one of the combining entities are authorised for issue are disclosed if they are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements (see IAS 10 *Events after the Balance Sheet Date*).
- A2. In IAS 35 *Discontinuing Operations*, paragraph 32 is amended to read as follows:
32. The asset disposals, liability settlements and binding sale agreements referred to in the preceding paragraph may occur concurrently with the initial disclosure event, or in the period in which the initial disclosure event occurs, or in a later period. In accordance with IAS 10 *Events after the Balance Sheet Date*, if some of the assets attributable to a discontinuing operation have actually been sold or are the subject of one or more binding sale agreements entered into after the balance sheet date but before the board approves the financial statements for issue, the financial statements include the disclosures required by paragraph 31 if the effects are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.
- A3. In IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 18 of the Introduction and paragraph 75 are amended to read as follows and paragraph 96 is deleted:
18. The Standard defines a contingent liability as:

(a) ...

75. A management or board decision to restructure taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before the balance sheet date:

- (a) started to implement the restructuring plan; or
- (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date, disclosure is required under IAS 10 *Events after the Balance Sheet Date*, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

96. [Deleted]

A4. In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at December 2003, references to the current version of IAS 10 *Events After the Balance Sheet Date* are amended to IAS 10 *Events after the Balance Sheet Date*.