

Events After the Reporting Period (IAS 10)

Table of Contents

1. Objective and overview of IAS 10
2. Key definitions and timeline
3. Adjusting events after the reporting period
4. Non-adjusting events after the reporting period
5. Dividends declared after the reporting period
6. Going concern and IAS 10
7. Disclosure requirements under IAS 10
8. Summary of adjusting vs non-adjusting events
9. Illustrative exam-style scenarios (with brief answers)
10. 20 Multiple-Choice Questions (MCQs)
11. Case-Study-Based Scenario Set

1. Objective and overview of IAS 10

IAS 10 deals with events that occur between:

- **The end of the reporting period** (e.g. 31 December 20X5), and
- **The date the financial statements are authorised for issue** (e.g. 31 March 20X6).

The standard answers two key questions:

1. **Should the financial statements be adjusted for the event?**
2. **If not adjusted, must the event be disclosed?**

IAS 10 also links to the **going concern assumption**: if events after the reporting period show that going concern is no longer appropriate, the financial statements must not be prepared on a going concern basis.

2. Key definitions and timeline

2.1 Events after the reporting period

Events after the reporting period are favourable or unfavourable events that occur between:

- **Reporting date**: the end of the financial period (e.g. 31 December 20X5), and
- **Authorisation date**: the date when the financial statements are authorised for issue by management or those charged with governance.

These events are split into:

- **Adjusting events**: provide evidence of conditions that existed at the reporting date.
- **Non-adjusting events**: indicative of conditions that arose after the reporting date.

2.2 Date of authorisation for issue

The **authorisation date** is critical because IAS 10 applies to all events up to that date, even if the financial statements are published later or profits are announced earlier.

Examples:

- **Company:**
 - Year-end: 31 December 20X5
 - The Board approves financial statements: 25 March 20X6
 - Financial statements issued to shareholders: 10 April 20X6

→ Events between 31 December 20X5 and 25 March 20X6 fall under IAS 10.

- **Close Corporation:**
 - Year-end: 30 June 20X5
 - The members sign off financial statements: 31 August 20X5 → Events between 30 June and 31 August 20X5 are considered.

3. Adjusting events after the reporting period

3.1 Definition

An **adjusting event** is an event after the reporting period that provides **additional evidence** of conditions that already existed at the reporting date. Because the condition existed at year-end, the financial statements must be adjusted.

3.2 General principle

For adjusting events:

- **Amounts recognised** in the financial statements are **adjusted** (e.g. assets, liabilities, income, expenses).
- **New liabilities or assets** may be recognised if the event confirms they existed at the reporting date.
- The aim is to ensure the financial statements reflect the position at the reporting date, using all information available up to the authorisation date.

3.3 Typical examples of adjusting events

Example 1: Court case settlement

- At 31 December 20X5, an entity is involved in a court case.
- At year-end, a provision of R500 000 is recognised based on legal advice.
- On 15 February 20X6 (before authorisation), the court rules against the entity and the final settlement is R800 000.

Analysis:

- The court case existed at the reporting date.
- The settlement provides more precise evidence of the obligation at 31 December 20X5.
- **Adjusting event:** increase the provision from R500 000 to R800 000 and recognise additional expense of R300 000 in 20X5.

Example 2: Bankruptcy of a customer

- At 31 December 20X5, trade receivables include R200 000 owed by Customer A.
- On 10 January 20X6, Customer A is declared bankrupt.

Analysis:

- The bankruptcy shortly after year-end confirms that Customer A was already in serious financial difficulty at 31 December 20X5.
- The receivable was impaired at the reporting date.
- **Adjusting event:** recognise a credit loss in 20X5 and reduce trade receivables by R200 000.

Example 3: Discovery of fraud or error

- After year-end but before authorisation, management discovers that an employee has been overstating inventory quantities, inflating profits.

Analysis:

- The fraud existed at the reporting date.
- The financial statements are misstated.
- **Adjusting event:** correct inventory and profit figures for 20X5.

Example 4: Sale of inventory giving evidence of NRV

- Inventory is carried at cost of R100 per unit at 31 December 20X5.
- In January 20X6, the same inventory is sold for R80 per unit in the ordinary course of business.

Analysis:

- The sale provides evidence that the **net realisable value (NRV)** at 31 December 20X5 was R80, not R100.
- **Adjusting event:** write down inventory to NRV at year-end and recognise it in Cost of sales in 20X5.

3.4 Exam focus for adjusting events

When deciding if an event is adjusting:

1. **Identify the condition** (e.g. court case, customer's financial difficulty, inventory value).
2. **Ask:** Did this condition exist at the reporting date?
3. If **yes**, the event is adjusting and the financial statements must be updated.
4. If **no**, it is likely non-adjusting (see paragraph 4).

4. Non-adjusting events after the reporting period

4.1 Definition

A **non-adjusting event** is an event after the reporting period that is indicative of conditions that **arose after** the reporting date. The condition did not exist at year-end, so the financial statements are not adjusted.

However, if the event is **material**, IAS 10 requires disclosure of:

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

4.2 Typical examples of non-adjusting events

Example 1: Major business combination after year-end

- On 31 December 20X5, Entity X has no plan to acquire another company.
- On 20 February 20X6, Entity X signs a contract to acquire Entity Y in a major business combination.

Analysis:

- The decision and contract to acquire Entity Y arose after the reporting date.
- No such condition existed at 31 December 20X5.
- **Non-adjusting event:** no adjustment to 20X5 figures but disclose the acquisition and its expected impact, if material.

Example 2: Major fire or natural disaster

- On 10 January 20X6, a fire destroys a factory and inventory.
- At 31 December 20X5, the factory and inventory were in normal use and condition.

Analysis:

- The fire is a new event after the reporting date.
- The destruction did not reflect conditions at year-end.
- **Non-adjusting event:** no adjustment to 20X5 assets but disclose the event and its financial effect, if material.

Example 3: Significant fall in market value of investments

- At 31 December 20X5, an entity holds listed shares measured at fair value.
- In February 20X6, a market crash causes a significant fall in share prices.

Analysis:

- The crash reflects new market conditions after year-end.
- The fair value at 31 December 20X5 remains appropriate based on information available at that date.
- **Non-adjusting event:** no adjustment to 20X5 fair values but disclose the fall if it is material and affects users' understanding.

Example 4: Announcement of a major restructuring

- On 31 December 20X5, management has no detailed formal plan for restructuring.
- On 15 January 20X6, a detailed restructuring plan is approved and announced publicly.

Analysis:

- The obligation for restructuring arises only when the plan is approved and announced.
- At 31 December 20X5, no constructive obligation existed.
- **Non-adjusting event:** no restructuring provision at year-end; disclose the restructuring if material.

4.3 Disclosure requirements for non-adjusting events

For **material non-adjusting events**, IAS 10 requires disclosure of:

- **Nature of the event** (clear description).
- **Estimate of financial effect**, or a statement that such an estimate cannot be made.

This disclosure helps users understand significant developments after year-end that could influence decisions, even though the numbers themselves are not adjusted.

5. Dividends declared after the reporting period

5.1 Core rule

IAS 10 contains a specific rule for **dividends**:

- If dividends to holders of equity instruments are **declared after the reporting period**, they **must not be recognised as a liability** at the reporting date.
- Instead, they are disclosed in the notes.

Reason: At the reporting date, there is **no present obligation** to pay dividends until they are formally declared (e.g. approved by the board or shareholders).

5.2 Example: Dividends declared after year-end

- Year-end: 31 December 20X5.
- On 20 February 20X6, the board declares a final dividend of R0,50 per share, totalling R1 000 000.

Treatment:

- At 31 December 20X5, no liability is recognised for this dividend.
- The dividend is disclosed in the notes as an event after the reporting period.

5.3 Exam tip

If the exam scenario states “dividends proposed after year-end” or “dividends declared after the reporting period”, the correct treatment under IAS 10 is:

- **No liability** at the reporting date.
- **Disclosure only** as an event after the reporting period.

6. Going concern and IAS 10

6.1 Link to going concern

IAS 10 requires that if events after the reporting period indicate that the **going concern assumption is no longer appropriate**, the financial statements must **not** be prepared on a going concern basis.

Going concern means the entity is expected to continue in operation for the foreseeable future and not forced to liquidate or cease trading.

6.2 Examples affecting going concern

Example 1: Decision to liquidate after year-end

- At 31 December 20X5, the entity is trading normally.
- On 10 February 20X6, after severe losses, management decides to liquidate the entity and approves a formal plan.

Analysis:

- The decision to liquidate is an event after the reporting period.
- It indicates that the going concern assumption is no longer appropriate.
- Financial statements for 20X5 must be prepared on a **non-going concern basis** (e.g. liquidation basis), even though the decision was taken after year-end.

Example 2: Loss of major customer and funding

- After year-end but before authorisation, the entity loses its main customer and its bank withdraws funding.
- As a result, the entity cannot continue trading and has no realistic alternative but to cease operations.

Analysis:

- These events may indicate that the entity is no longer a going concern.
- The financial statements must be prepared on a basis reflecting this (e.g. assets measured at net realisable value, liabilities adjusted for settlement terms).
- Extensive disclosure is required to explain the basis of preparation.

6.3 Distinguishing going concern from other non-adjusting events

Not all non-adjusting events change the basis of preparation. Only when events after the reporting period show that **going concern is inappropriate** must the basis be changed.

If going concern remains appropriate, non-adjusting events are treated as in paragraph 4: no adjustment, but disclosure if material.

7. Disclosure requirements under IAS 10

IAS 10 requires specific disclosures relating to events after the reporting period.

7.1 Date of authorisation for issue

The entity must disclose:

- **The date when the financial statements were authorised for issue**, and
- **Who gave that authorisation** (e.g. board of directors, owner-manager).

If the entity's owners or others have the power to amend the financial statements after issue, this fact must also be disclosed.

7.2 Updating disclosure about conditions at the reporting date

Sometimes, events after the reporting period provide more information about conditions that existed at year-end but do not change the amounts recognised. In such cases, the entity may need to **update disclosures** to reflect the new information.

Example:

- At 31 December 20X5, a contingent liability is disclosed for a court case.

- After year-end but before authorisation, new information reduces the possible range of outcomes.
- The entity updates the note disclosure to reflect the more precise information, even if no adjustment to amounts is required.

7.3 Non-adjusting events after the reporting period

For **material non-adjusting events**, the entity must disclose:

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

Examples of events requiring disclosure:

- Major business combination after year-end.
- Major fire or natural disaster destroying significant assets.
- Significant decline in market value of investments.
- Major restructuring announced after year-end.

8. Summary of adjusting vs non-adjusting events

8.1 Core distinction

- **Adjusting events:**
 - Provide evidence of conditions existing at the reporting date.
 - **Adjust** amounts in the financial statements.
- **Non-adjusting events:**
 - Reflect conditions arising after the reporting date.
 - **Do not adjust** amounts but **disclose** if material.

8.2 Quick decision guide

When faced with an event after the reporting period:

1. **Identify the underlying condition** (e.g. legal obligation, impairment, market crash, fire).
2. **Ask:** Did this condition exist at the reporting date?
 - If **yes** → Adjusting event → adjust figures.
 - If **no** → Non-adjusting event → consider disclosure.
3. Consider whether the event affects **going concern**.
4. Consider specific rules (e.g. **dividends** declared after year-end → no liability, disclosure only).

9. Illustrative exam-style scenarios (with brief answers)

Scenario 1: Lawsuit

At 31 December 20X5, Entity A is sued for R2 million. No provision is recognised because legal advice suggests the case is unlikely to succeed. On 15 February 20X6, before authorisation, the court rules against Entity A and awards damages of R1,5 million.

Answer outline:

- Condition (lawsuit) existed at year-end.
- Court ruling provides evidence of a present obligation at 31 December 20X5.
- **Adjusting event:** recognise a provision of R1,5 million and an expense in 20X5.

Scenario 2: Fire destroying warehouse

On 10 January 20X6, a fire destroys a warehouse and inventory with a total carrying amount of R5 million. At 31 December 20X5, the assets were in normal use.

Answer outline:

- Fire is a new event after year-end.
- Condition (destruction) did not exist at the reporting date.
- **Non-adjusting event:** no adjustment to 20X5 figures; disclose nature and financial effect if material.

Scenario 3: Dividend proposed

Year-end: 31 December 20X5. On 20 March 20X6, the board proposes a final dividend of R0,40 per share, totalling R800 000.

Answer outline:

- Dividend proposed after the reporting period.
- No present obligation at 31 December 20X5.
- **No liability** (or distribution) recognised at year-end.
- **Disclosure** in notes as an event after the reporting period.

Scenario 4: Major customer bankruptcy and going concern

At 31 December 20X5, Entity B is profitable but heavily dependent on one major customer. On 5 February 20X6, the customer goes into liquidation, and Entity B loses 70% of its revenue. The bank withdraws funding and Entity B decides to cease trading.

Answer outline:

- Events after year-end indicate that going concern is no longer appropriate.

- Financial statements for 20X5 must be prepared on a **non-going concern basis**.
- Extensive disclosure explaining the basis of preparation and events leading to cessation.

10. 20 Multiple-Choice Questions (MCQs)

1. Events after the reporting period are those that occur:

- A. Only after the financial statements are published
- B. Between the reporting date and the date the financial statements are authorised for issue
- C. Between the reporting date and the audit completion date
- D. At any time during the next financial year

2. An adjusting event is one that:

- A. Indicates new conditions arising after year-end
- B. Provides evidence of conditions that existed at the reporting date
- C. Requires disclosure only
- D. Is always favourable to the entity

3. Which of the following is an adjusting event?

- A. A major fire destroying a warehouse after year-end
- B. A significant fall in market value of investments due to a market crash after year-end
- C. Bankruptcy of a customer shortly after year-end
- D. Announcement of a major restructuring after year-end

4. Bankruptcy of a customer after year-end is usually an adjusting event because:

- A. It is always material
- B. It confirms the customer was already in financial difficulty at year-end
- C. It affects future cash flows
- D. It indicates poor corporate governance

5. A non-adjusting event:

- A. Must always be recognised in the financial statements
- B. Must never be disclosed
- C. Relates to conditions arising after the reporting date
- D. Requires adjustment only if material

6. Which of the following is a non-adjusting event?

- A. Settlement of a court case that existed at year-end
- B. Discovery of fraud that existed at year-end
- C. Sale of inventory after year-end providing evidence of NRV at year-end
- D. A major business combination agreed after year-end

7. Dividends declared after the reporting period:

- A. Must be recognised as a liability at year-end
- B. Must not be recognised as a liability at year-end
- C. Must be recognised as a distribution at year-end
- D. Must be recognised only if material

8. Dividends declared after year-end are:

- A. Adjusting events
- B. Non-adjusting events requiring disclosure
- C. Not events after the reporting period
- D. Recognised as an expense

9. The date of authorisation for issue is:

- A. The date the auditor signs the audit report
- B. The date the financial statements are sent to shareholders
- C. The date management formally approves the financial statements
- D. The date the financial year ends

10. If events after the reporting period indicate that going concern is no longer appropriate:

- A. The financial statements must still be prepared on a going concern basis
- B. The financial statements must be prepared on a non-going-concern basis
- C. Only disclosure is required
- D. No action is required until the next reporting period

11. A major fire destroying assets after year-end is:

- A. An adjusting event
- B. A non-adjusting event
- C. Not an event after the reporting period
- D. An adjusting event only if insured

12. Which of the following must be disclosed for material non-adjusting events?

- A. Nature of the event only
- B. Financial effect only
- C. Nature and financial effect, or a statement that the effect cannot be estimated
- D. No disclosure is required

13. Settlement of a court case after year-end, confirming a present obligation at year-end is:

- A. Adjusting
- B. Non-adjusting
- C. Not relevant
- D. Disclosed only

14. A restructuring plan approved after year-end is:

- A. Adjusting
- B. Non-adjusting
- C. Adjusting only if announced before year-end
- D. Adjusting only if material

15. Discovery of fraud after year-end that existed at year-end is:

- A. Adjusting
- B. Non-adjusting
- C. Not an event after the reporting period
- D. Disclosed only

16. A significant decline in fair value of investments due to a market crash after year-end is:

- A. Adjusting
- B. Non-adjusting
- C. Adjusting only if the entity plans to sell the investments
- D. Adjusting only if material

17. IAS 10 requires disclosure of:

- A. The date the financial statements were authorised for issue
- B. The names of all directors
- C. The audit fee
- D. The planned dividend for next year

18. If owners have the power to amend the financial statements after issue, IAS 10 requires:

- A. No disclosure
- B. Disclosure of this fact
- C. A change in accounting policies
- D. A note on future events

19. Sale of inventory after year-end at a price lower than cost is an adjusting event when:

- A. It provides evidence that NRV was lower at year-end
- B. The sale is unusually large
- C. The sale is made to a related party
- D. The sale occurs more than 30 days after year-end

20. Which of the following best describes the purpose of IAS 10?

- A. To prescribe how to value inventory
- B. To determine when revenue should be recognised
- C. To identify which events after year-end require adjustment or disclosure
- D. To set rules for consolidation

Answer Key:

1-B

2-B

3-C

4-B

5-C

6-D

7-B

8-B

9-C

10-B

11-B

12-C

13-A

14-B

15-A

16-B

17-A

18-B

19-A

20-C

11. Case-Study-Based Scenario Set

CASE STUDY 1 — The Zimbali Manufacturing Fire

Background:

Zimbali Manufacturing has a 31 December 20X5 year-end. The financial statements are expected to be authorised for issue on 25 March 20X6.

On 12 January 20X6, a fire broke out at one of Zimbali's warehouses, destroying inventory with a carrying amount of R8,4 million. The warehouse was fully operational and in good condition at 31 December 20X5. Insurance is expected to cover 70% of the loss, but the insurer has not yet confirmed the final payout.

Required:

1. Identify whether the fire is an adjusting or non-adjusting event.
2. Explain the correct accounting treatment at 31 December 20X5.
3. State the disclosure requirements, if any.
4. Comment on whether the insurance recovery should be recognised at year-end.

MEMO — Case 1

1. **Type of event:** Non-adjusting event. The fire occurred after year-end and does not relate to conditions existing at 31 December 20X5.

2. **Accounting treatment:** No adjustment to the 20X5 financial statements. The inventory and warehouse remain at their 31 December 20X5 carrying amounts.

3. **Disclosure:** Because the event is material (R8,4 million), Zimbali must disclose:

- The nature of the event (fire destroying inventory)
- An estimate of the financial effect (loss of R8,4 million, expected insurance recovery of 70%)
- Or a statement that the financial effect cannot be reliably estimated

4. **Insurance recovery:** No insurance receivable is recognised at 31 December 20X5 because the insurance claim arises from a non-adjusting event. Only disclosure is permitted.

CASE STUDY 2 — The Mkhize Retail Court Case

Background:

Mkhize Retail is being sued by a supplier for breach of contract. Year-end: 30 June 20X5.
Authorisation date: 31 August 20X5.

At 30 June 20X5, legal advisors believed the case was unlikely to succeed, so Mkhize disclosed a contingent liability only.

On 10 July 20X5, the court ruled against Mkhize, ordering damages of R2,1 million.

Required:

1. Identify whether the court ruling is an adjusting or non-adjusting event.
2. Explain the correct accounting treatment at 30 June 20X5.
3. State the required disclosure, if any.
4. Explain the impact on profit for the year ended 30 June 20X5.

MEMO — Case 2

1. **Type of event:** Adjusting event. The court case existed at year-end, and the ruling provides evidence of the obligation at 30 June 20X5.
2. **Accounting treatment:** Recognise a provision of R2,1 million at 30 June 20X5.
Remove the contingent liability disclosure.
3. **Disclosure:** Update the notes to reflect the provision and the nature of the event.
4. **Impact on profit:** Profit decreases by R2,1 million due to recognition of the provision.

CASE STUDY 3 — The Kudu Electronics Customer Bankruptcy

Background:

Kudu Electronics has a 31 December 20X5 year-end. Authorisation date: 20 March 20X6.

Trade receivables include R600 000 owed by Customer L. At year-end, Customer L was experiencing mild cash-flow pressure but continued trading.

On 5 January 20X6, Customer L is declared bankrupt. Liquidators estimate that only 10% of the receivable will be recovered.

Required:

1. Determine whether the bankruptcy is an adjusting or non-adjusting event.
2. Explain the correct accounting treatment at 31 December 20X5.
3. Calculate the impairment adjustment required.
4. State the disclosure requirements, if any.

MEMO — Case 3

1. **Type of event:** Adjusting event. Bankruptcy shortly after year-end indicates the customer was already in financial difficulty at 31 December 20X5.
2. **Accounting treatment:** Impair the receivable at year-end.
3. **Impairment calculation:** Recoverable amount = $10\% \times R600\,000 = R60\,000$
Impairment loss = $R600\,000 - R60\,000 = \mathbf{R540\,000}$
4. **Disclosure:** No separate IAS 10 disclosure required because the event results in adjustment. The impairment is reflected in the financial statements.

CASE STUDY 4 — The Bayview Hotels Restructuring Plan

Background:

Bayview Hotels has a 30 September 20X5 year-end. Authorisation date: 30 November 20X5.

At year-end, management was considering restructuring but had no formal plan.

On 15 October 20X5, the board approves a detailed restructuring plan involving closure of two hotels and retrenchment of 120 employees.

Required:

1. Identify whether the restructuring plan is an adjusting or non-adjusting event.
2. Explain the correct accounting treatment at 30 September 20X5.
3. State the disclosure requirements.
4. Explain whether a restructuring provision should be recognised at year-end.

MEMO — Case 4

1. **Type of event:** Non-adjusting event. No constructive obligation existed at year-end.
2. **Accounting treatment:** No restructuring provision at 30 September 20X5.
3. **Disclosure:** Because the event is material, disclose: • Nature of the restructuring • Estimated financial effect (e.g., retrenchment costs, closure costs)
4. **Provision:** Recognised only when the plan is approved and announced — i.e., in the next reporting period.

CASE STUDY 5 — The Ubuntu Mining Going-Concern Crisis

Background:

Ubuntu Mining has a 31 December 20X5 year-end. Authorisation date: 31 March 20X6.

At year-end, the company was profitable but heavily dependent on one major customer (70% of revenue).

On 10 February 20X6, the customer goes into liquidation. On 20 February 20X6, Ubuntu's bank withdraws its financing facilities. On 1 March 20X6, the board decides to cease trading and liquidate the company.

Required:

1. Explain whether these events are adjusting or non-adjusting.
2. Discuss the impact on the basis of preparation of the 20X5 financial statements.
3. State the disclosure requirements.
4. Explain whether assets and liabilities at 31 December 20X5 must be remeasured.

MEMO — Case 5

1. **Type of events:** Non-adjusting events — but they affect going concern.
 2. **Basis of preparation:** The financial statements **must NOT** be prepared on a going-concern basis. IAS 10 requires a change in basis if events after year-end show going concern is inappropriate.
 3. **Disclosure:** Extensive disclosure explaining:
 - The events leading to liquidation
 - The decision to cease trading
 - The new basis of preparation
 - Measurement changes
 4. **Remeasurement:** Yes. Assets and liabilities must be measured on a liquidation basis (e.g., NRV for assets, settlement amounts for liabilities).
-