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IAS® Standard 10 Events After the Reporting Period



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CASE STUDY - IAS 10 EVENTS AFTER THE REPORTING PERIOD

Introduction

Purpose of standard is to determine the length of the period of time a company can make adjustments on events after the reporting period. Another purpose is to determine the authorization date of the financial statements and to determine the disclosures that should be made after the reporting period. It is of great importance for companies and financial statement users whether events occurring after the reporting period will require adjustments in the financial statements. The existence of an event that requires an adjustment after the reporting period will also require changes in the financial statements and this will also affect the decisions of the users of the financial statements. In addition, it is also important for decision makers to determine the events that will require explanation in the financial statement notes, even if they do not require adjustment.

The aim of this case is to discuss how it can be determined which events require adjustment after the reporting period and what differences of opinion may arise on this issue.

Case Information

Rain Company is one of the prestigious enterprises of the sector, which produces automobiles. Rain Company has decided to offer some of its shares to the public. For this reason, the company's financial statements are audited by an independent audit company for the first time. During the independent audit process, there are some differences of opinion between the business management and the independent auditors. The points where these differences of opinion are most concentrated are related to the events that occurred after the financial reporting date.

The events that occurred after December 31, 2021, which is the reporting date in Rain Company, are as follows.

- a) A lawsuit was filed against the entity in 2021. The amount of compensation claimed is CU120,000. The case was concluded on January 3, 2022. The entity lost the case and is required to pay CU120,000 in damages. There is no provision recorded for the case. The business management claims that the case was concluded in 2022 and it is not concern the 2021 financial statements.
- b) The entity distributes a 3% premium to its employees each year from its pre-tax profits. The profit before tax for 2021 was determined on January 23, 2022. The premium amount the entity must distribute to its employees is CU220,000. The business management says that this obligation to the employees is certain in 2022 and does not concern the 2021 period.
- c) The firm's finished goods inventories are measured at the lower of cost or net realizable value. The carrying amount of the entity's finished goods inventories is CU1,300,000 at 31 December 2021. Net realizable value calculation was completed on 13 January 2022 and net realizable value determined by independent auditors as CU1,150,000. The business management says that there should be no inventory impairment in the 2021 financial statements, and the measurement was completed in 2022.

In addition to the above-mentioned issues, the following events occurred after the reporting period.

- d) On January 20, 2022, Rain Company acquired a competitor in the industry for CU10,000,000.

- e) On February 2, 2022, the entity decided to classify certain equipment as non-current assets held for sale.
- f) On February 11, 2022, it was found that a sales invoice issued by Rain Company on December 1, 2021 was incorrectly recorded as CU9,000 instead of CU90,000.
- g) Renovations were made in the factory building. The renovation started on 12 November 2021 and was completed on 23 December 2021. An invoice was awaited from the architectural firm in order to finalize the cost of the renovation. The invoice was sent to Rain Company on January 2, 2022. The total renovation cost is CU300,000.
- h) A lawsuit was filed against Rain Company on 11 January 2022 on the grounds that it did not fulfill its contractual obligations. The amount of compensation claimed is CU25,000. The company's legal counsel stated that the probability of losing the case is high.

Discussion Questions

What is your approach to the events that cause a difference of opinion between the business management and the independent auditors? Which of the events after the reporting period require adjustments to the 2021 financial statements?

SOLUTION OF CASE STUDY - IAS 10 EVENTS AFTER THE REPORTING PERIOD

- a) It is an event after the reporting period because the lawsuit was claimed in 2021. Even though the case was concluded in 2022, it is a liability occurred in 2021. With the adjustment, the compensation expense and the lawsuit compensation liability should be included in the financial statements.

Dec.31, 2021	Dr. Lawsuit Compensation Expense (P&L)	120,000	
	Cr. Lawsuit Compensation Liability (Liabilities)		120,000

- b) Even if the premium amount is finalized in 2022, the obligation in question belongs to 2021. Therefore, this event is an event that requires adjustment after the reporting period. The expense and liability related to the premium should be recognized.

Dec.31, 2021	Dr. Salaries Expense (P&L)	220,000	
	Cr. Salaries Payables (Liabilities)		220,000

- c) Although the net realizable value calculation for the inventories was completed in 2022, this calculation was made for the inventories held by the enterprise as of 31 December 2021. It is an event that requires correction after the reporting period. Inventories should be reduced to net realizable value and impairment expense for inventories should be recognized.

Dec.31, 2021	Dr. Loss on Inventory (P&L)	150,000	
	Cr. Write-Down for Inventories (Assets)		150,000

- d) It is a significant event for the business, but is not an event after reporting period that requires adjustment as the acquisition occurred later in 2021. Explanations on the subject can be made in the notes.

- e) The decision to classify as non-current assets held for sale was taken in 2022. It is not an event requiring adjustment after the reporting period. Explanations on the subject can be made in the notes.

- f) Incorrect accounting of the invoice is an event that requires adjustment after the reporting period. With the adjustment, sales revenue and accounts receivable should be corrected.

Dec.31, 2021	Dr. Accounts Receivables (Sales)	81,000	
	Cr. Sales Revenue (P&L)		81,000

- g) Exact costs for events occurring before the reporting period can be determined after the reporting period ends. It is an event that requires adjustment after the reporting period.

Dec.31, 2021 Dr. Property, Plant & Equipment (Assets)	300,000
Cr. Other Payables (Liabilities)	300,000

h) Since the lawsuit was filed in 2022, it is not an event requiring adjustment after the reporting period. The entity may make explanations on the subject in the notes.