

**ACCOUNTING STANDARD**

**AASB 110**

July 2004

# **Events after the Balance Sheet Date**



**Australian Government**

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**Australian Accounting  
Standards Board**

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BASIS FOR CONCLUSIONS ON IAS 10

(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 110 *Events after the Balance Sheet Date* is set out in paragraphs 1 – 22. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 110 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## **PREFACE**

### **Reasons for Issuing AASB 110**

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

## **Main Features of this Standard**

### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

### **First-time Application and Comparatives**

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

### **Main Requirements**

The Standard:

- (a) distinguishes between two types of event after the reporting date. The first type of event is that which provides evidence of conditions that existed at the reporting date and the second type of event is that which is indicative of conditions that arose after the reporting date;
- (b) requires the amounts recognised in the financial statements to be adjusted to reflect the first type of event;
- (c) prohibits the amounts recognised in the financial statements from being adjusted to reflect the second type of event;
- (d) requires specific disclosures about the second type of event to be made in the financial report; and
- (e) prohibits the preparation of financial reports on a going concern basis when events of the first or second type indicate that the going concern assumption is no longer appropriate.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

### **AASB 110 and IAS 10**

AASB 110 is equivalent to IAS 10 *Events after the Balance Sheet Date* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB Standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering.

### **Compliance with IAS 10**

Entities that comply with AASB 110 will simultaneously be in compliance with IAS 10.

### **AASB 110 and IPSAS 14**

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

IPSAS 14 *Events After the Reporting Date* (December 2001) is drawn primarily from IAS 10. The main differences between IPSAS 14 and AASB 110 are:

- (a) IPSAS 14 contains additional commentary on determining the date of authorisation for issue (paragraphs 5, 6 and 7); and
- (b) commentary additional to that in AASB 110 has been included in IPSAS 14 to clarify the applicability of the standards to accounting by public sector entities.

## ACCOUNTING STANDARD AASB 110

The Australian Accounting Standards Board makes Accounting Standard AASB 110 *Events after the Balance Sheet Date* under section 334 of the *Corporations Act 2001*.

Dated 15 July 2004

D.G. Boymal  
Chair – AASB

## ACCOUNTING STANDARD AASB 110

### ***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 reporting date*; and
  - (b) the disclosures that an entity should give about the date when the financial report was authorised for issue and about events after the reporting date.

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

#### **Application**

**Aus1.1 This Standard applies to:**

- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
- (b) **general purpose financial reports of each other reporting entity; and**
- (c) **financial reports that are, or are held out to be, general purpose financial reports.**

**Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.**

- Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus1.4 The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus1.5 When applicable, this Standard supersedes:
- (a) AASB 1002 *Events Occurring After Reporting Date* as notified in the *Commonwealth of Australia Gazette* No S 415, 16 October 1997; and
  - (b) AAS 8 *Events Occurring After Reporting Date* as issued in October 1997.
- Aus1.6 Both AASB 1002 and AAS 8 remain applicable until superseded by this Standard.
- Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.
- Aus1.8 The term 'balance sheet date' in the title of this Standard means 'reporting date'.

## Scope

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

## Definitions

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

*Events after the reporting date* are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial report is authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the reporting date (*adjusting events after the reporting date*); and

**(b) those that are indicative of conditions that arose after the reporting date (*non-adjusting events after the reporting date*).**

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

**Example**

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

*The financial report is 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 report to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial report is authorised for issue when the management authorises it for issue to the supervisory board.

**Example**

On 18 March 20X2, the management of an entity authorises a financial report 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 report on 26 March 20X2. The financial report is made available to shareholders and others on 1 April 20X2. The shareholders approve the financial report at their annual meeting on 15 May 20X2 and the financial report is then filed with a regulatory body on 17 May 20X2.

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

- Aus6.1 The existence of a supervisory board, as noted in paragraph 6, may be rare in the Australian environment. In the case of companies, it is only the directors that can approve the financial report under the Corporations Act. In the case of other entities, management or the governing body of the entity authorises the financial report for issue.
7. Events after the reporting date include all events up to the date when the financial report is authorised for issue, even if those events occur after the public announcement of a profit or of other selected financial information.

## Recognition and Measurement

### Adjusting Events after the Reporting Date

8. **An entity shall adjust the amounts recognised in its financial statements to reflect *adjusting events after the reporting date*.**
9. 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 AASB 137 *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 AASB 137;

- (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 bankruptcy of a customer that occurs after the reporting date usually confirms that a loss already existed at the reporting 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 reporting date may give evidence about their net realisable value 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 profit sharing or bonus payments, 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 (see AASB 119 *Employee Benefits*); and
- (e) the discovery of fraud or errors that show that the financial statements are incorrect.

### **Non-adjusting Events after the Reporting Date**

- 10. An entity shall not adjust the amounts recognised in its financial statements to reflect *non-adjusting events after the reporting date*.**
- 11. An example of a non-adjusting event after the reporting date is a decline in market value of investments between the reporting date and the date when the financial report is authorised for issue. The decline in market value does not normally relate to the condition of the investments at the reporting 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 reporting 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 AASB 132 *Financial Instruments: Disclosure and Presentation*) after the reporting date, the entity shall not recognise those dividends as a liability at the reporting date.**
13. If dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting date but before the financial report is authorised for issue, the dividends are not recognised as a liability at the reporting date because they do not meet the criteria of a present obligation in AASB 137. Such dividends are disclosed in the notes in the financial report in accordance with AASB 101 *Presentation of Financial Statements*.

## **Going Concern**

- 14. An entity shall not prepare its financial report on a going concern basis if management determines after the reporting 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 reporting 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. AASB 101 specifies required disclosures if:
  - (a) the financial report is 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 reporting date.

## Disclosure

### Date of Authorisation for Issue

17. **An entity shall disclose the date when the financial report was authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial report after issue, the entity shall disclose that fact.**
18. It is important for users to know when the financial report was authorised for issue, because the financial report does not reflect events after this date.

### Updating Disclosure about Conditions at the Reporting Date

19. **If an entity receives information after the reporting date about conditions that existed at the reporting date, it shall update disclosures that relate to these conditions, in the light of the new information.**
20. In some cases, an entity needs to update the disclosures in its financial report to reflect information received after the reporting 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 reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should recognise or change a provision under AASB 137 *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 Reporting Date

21. **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 report. Accordingly, an entity shall 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.**
22. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

- (a) a major business combination after the reporting date (AASB 3 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;
- (b) announcing a plan to discontinue an operation;
- (c) major purchases of assets, classification of assets as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;
- (d) the destruction of a major production plant by a fire after the reporting date;
- (e) announcing, or commencing the implementation of, a major restructuring (see AASB 137);
- (f) major ordinary share transactions and potential ordinary share transactions after the reporting date (AASB 133 *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 AASB 133));
- (g) abnormally large changes after the reporting date in asset prices or foreign exchange rates;
- (h) 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 (see AASB 112 *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 reporting date.

## Effective Date of IAS 10

23. [Deleted by the AASB]