VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI

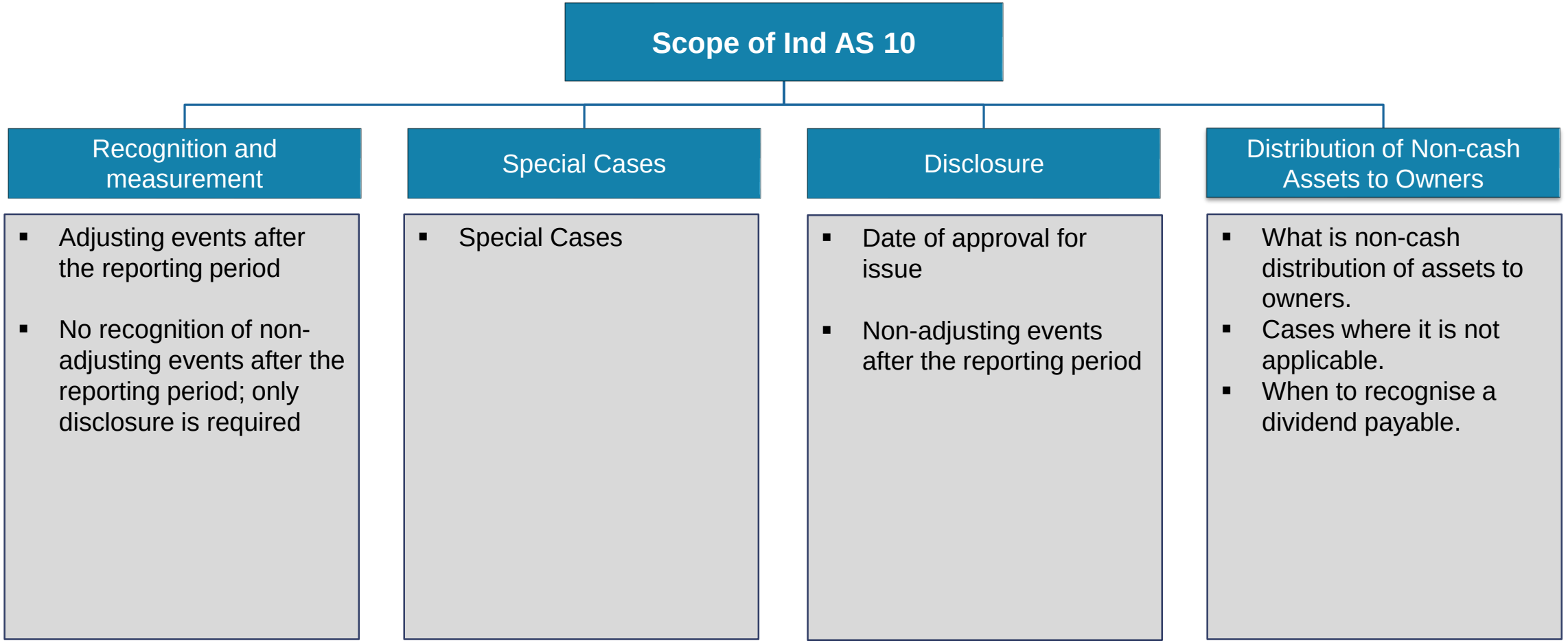
FINAL LEVEL
PAPER 1: IND AS 10 – EVENTS AFTER THE REPORTING PERIOD

Faculty: CA Amit Jain

AGENDA

1. Events after the reporting period
2. Recognition and measurement
3. Other Cases
4. Key Disclosures
5. Carve out
6. GAAP Differences between Ind AS and Indian GAAP
7. Distribution of non-cash assets to owners

Ind AS 10 – Events after the reporting period



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Events after the reporting period

4.1 Events after the reporting period

- Events after the Reporting Period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved.

- 'Events after the reporting period' include all events up to the date when the financial statements are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information.

- Example: The financial year of an entity ends on 31st March, 20X2. If the board of directors approves the financial statements on 15th May, 20X2, 'after the reporting period' will be the period between 31st March, 20X2 and 15th May, 20X2 and the events occurring during this period should be considered as 'events after the reporting period'.

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4.2 Approval of Financial statements

In case of Company

- When the board of directors approves the financial statements.
- Even in case shareholders' approval is mandatory, yet, for the purpose of deciding the events after the reporting period, the date of approval will be considered as the date of approval by the board of directors only.
- In case the management of an entity is required to issue its financial statements to **a supervisory board for approval** when the management approves them for issue to the supervisory board.

In case of Other entity

- When the **corresponding approving authority approves** the financial statements

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4.2 Approval of Financial statements (cont'd.)

Illustration 1

- What is the date of approval for issue of the financial statements prepared for the reporting period from April 1, 20X1 to March 31, 20X2, in a situation where following dates are available?
  (a) Completion of preparation of financial statements May 28, 20X2
  (b) Board reviews and approves it for issue June 19, 20X2
  (c) Available to shareholders – July 01, 20X2
  (d) Annual General Meeting – September 15, 20X2
  (e) Filed with regulatory authority – October 16, 20X2

Response :

- Financial statements are approved by the Board of Directors of the company, i.e., June 19, 20X2

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4.2 Approval of Financial statements (cont'd.)

Illustration 2

- The Board of Directors of ABC Ltd. approved the financial statements for the reporting period 20X1-X2 for issue on June 15, 20X2.
- The management of ABC Ltd. discovered a major fraud and decided to reopen the books of account.
- The financial statements were subsequently approved by the Board of Directors on June 30, 20X2.

Response :

- There are two dates of approval by Board of Directors in the present case.
- The financial statements were reopened for further adjustments subsequent to initial approval. The date of approval should be taken as the date on which financial statements are finally approved by the Board of Directors.
- Therefore, the date of approval for issue as per Ind AS 10 should be considered as June 30, 20X2.

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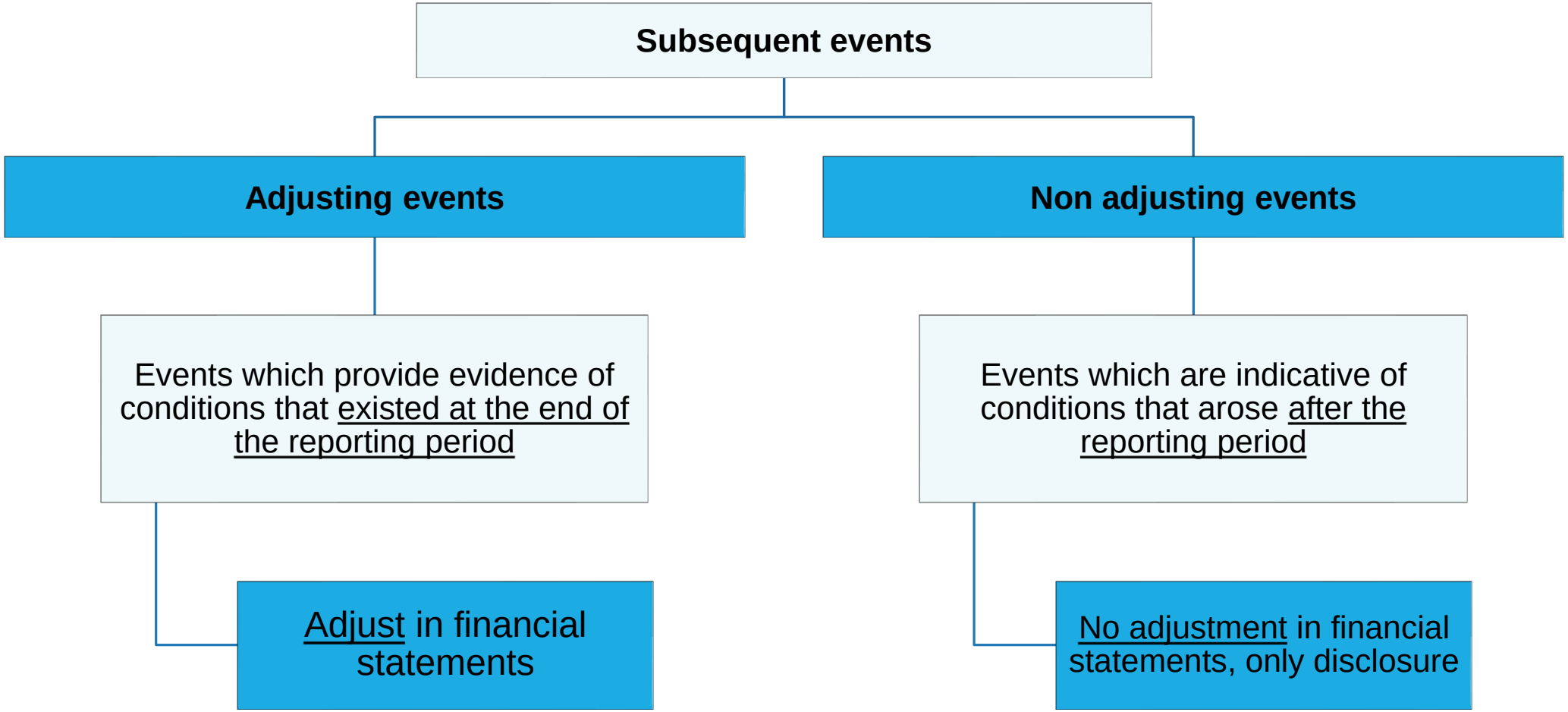
Recognition and measurement

4.3 Recognition and measurement



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Examples of adjusting events after the reporting period

1) **Out of Court settlement :** The settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37, 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 Ind AS 37.

2) **Impairment :** The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

3) **Assets purchased :** The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period, shall be considered as adjusting events.

4) **Bonus payment :** The determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a **present legal or constructive obligation** at the end of the reporting period to make such payments as a result of events before that date.

5) **Fraud or errors :** The discovery of fraud or errors that show that the financial statements are incorrect.

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Examples of Non-adjusting events after the reporting period

1) **Business combination :** A major business combination after the reporting period or disposing of a major subsidiary.

2) **Discontinued operations :** Announcing a plan to discontinue an operation.

3) **Fire Broke Out :** The destruction of a major production plant by a fire after the reporting period.

4) **Changes in the assets prices :** Abnormally large changes after the reporting period in asset prices or foreign exchange rates.

5) **Commitments or contingent liabilities :** Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees.

6) **Litigation :** Commencing major litigation arising solely out of events that occurred after the reporting period.

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Other Cases

Long term loan arrangements

Breach of covenants of Long term loan Arrangements

- If there is a breach of a material provision of a long-term loan arrangement **on or before the end of the reporting period** with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, **shall be considered as an adjusting event.**

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Going concern

- An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it i**ntends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.**

- **Deterioration in operating results and financial position** after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate.

- **Going concern approach can be applied if and only if the entity has intentions to continue its operations.** The carrying amount of assets and carrying amount of liabilities will be much different if the entity has plans to go in for liquidation.

- Ind AS 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 reporting period

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Disclosures

Disclosure requirements

- Disclose the date when the financial statements were approved for issue and who gave that approval.
- If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

Disclosure of Non-adjusting events after the reporting period

- Entity shall disclose the following for each material category of non-adjusting event after the reporting period:
  - Nature of the event
  - Estimate of its financial effect, or a statement that such an estimate cannot be made

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Ind AS 101 – Transition date

Ind AS 101 – Transition date – Changes in Estimates

- Ind AS 101 contains a mandatory exception related to estimates. An entity's estimates in accordance with Ind AS at the date of transition to Ind AS should be consistent with estimates made for the same date in accordance with previous GAAP, unless there is objective evidence that those estimates were in error. In other words, hindsight is not allowed in making an estimate in preparing an opening balance sheet.

Examples :

- For example, assume that an entity's date of transition to Ind AS is 1 April 2015 and new information on 15 July 2015 requires the revision of an estimate made in accordance with previous GAAP at 31 March 2015.
- The entity will not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity will reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 March 2016.

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Carve Out

Carve Out

- As per IAS 10 Events after the Reporting Period: Rectification of any breach after the end of the reporting period is a **non-adjusting event.**

Carve Out:

- As a consequence to carve-out made in Ind AS 1, Ind AS 10 provides, in the definition of 'Events after the reporting period' that in case of breach of a material provision of a long-term loan arrangement **on or before the end of the reporting period** with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, **it shall be considered as an adjusting event.**

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Difference between Ind AS and Indian GAAP

GAAP Differences

Particulars	Ind AS 10	Indian GAAP – AS 4
▪ Title	▪ Events after the Reporting Period	▪ Contingencies and Events Occurring after the Balance Sheet Date
▪ Material non adjusting events	▪ Material non-adjusting events to be disclosed in the financial statements.	▪ AS 4 requires the same to be disclosed in the report of approving authority.
▪ Breach of a material provision of a long-term loan arrangement	▪ In case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.	▪ No such guidance exist under Indian GAAP.
▪ Distribution of non-cash assets to Owners	▪ Ind AS 10 includes an Appendix Distribution of Non-cash Assets to Owners which deals, inter alia, with when to recognise dividends payable to its owners.	▪ No such guidance exist under Indian GAAP.

GAAP Differences

Particulars	Ind AS 10	Indian GAAP – AS 4
▪ Going Concern	▪ Disclosure needs to be made where the financial statements are not prepared on going concern basis.	▪ AS 4 does not require such disclosures. ▪ However, such disclosures are required by AS 1.

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Distribution of non-cash assets to owners – Appendix A

What is Distribution of non-cash assets to owners ?

- Requirement of Ind AS 10
  - Ind AS 1 requires an entity to present the details of dividends recognised as distributions to owners either in the SOCIE or in the notes to the financial statements but does not prescribe how to measure it.
  - Ind AS 10 deals with the measurement of distributions to owners.

- Ind AS 10 applies to the following types of non-reciprocal distributions of assets:
  - Distributions of non-cash assets. (eg items of property, plant and equipment, businesses as defined in Ind AS 103, ownership interests in another entity or disposal groups as defined in Ind AS 105);
  - Distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

- This Appendix applies only to distributions in which all owners of the same class of equity instruments are treated equally.

Distribution of non-cash assets to owners - Not Applicable

Appendix does not apply in the following scenarios :

1. Distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution.

2. Common control transactions – Ind AS 103:
   - Appendix does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution.
   - Group of individuals who are operating contractually as per Ind AS 103

3. When an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. Such NCI shall be accounted as per Ind AS 110.

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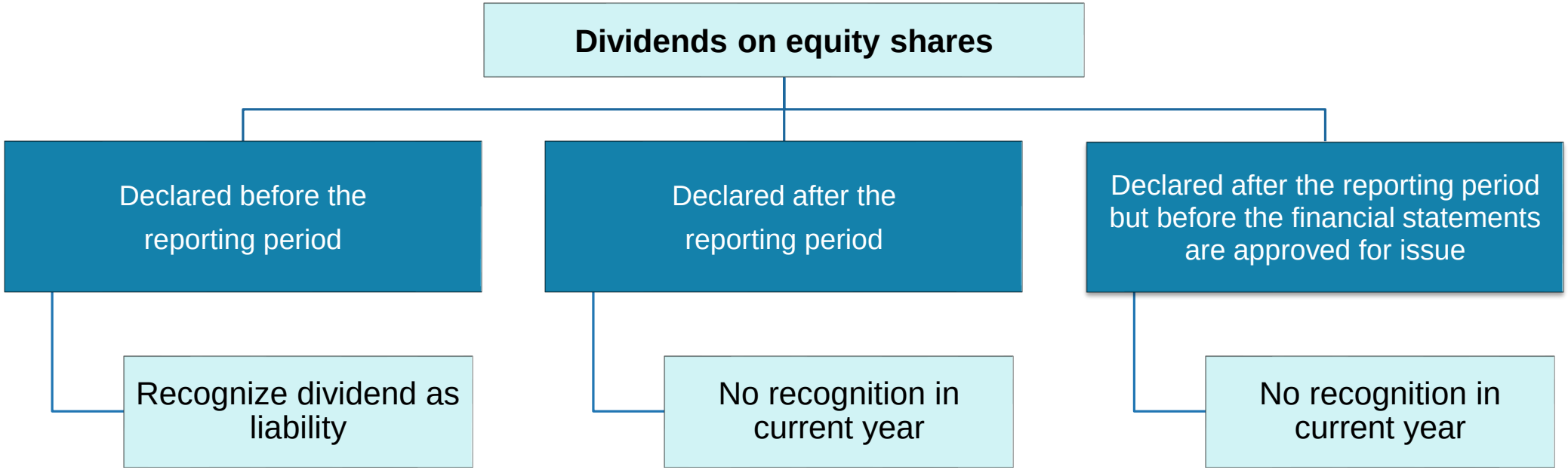
Dividends on equity shares



- Dividend shall be recognized in the year in which it is declared.
- Ind AS 10 does not prescribe accounting treatment for dividends declared to redeemable preference shareholders. They are governed by Ind AS 32 and 109

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When Entity should recognize the divided payable

- When to recognize Dividend payable

- Liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

- Dividend is no longer at the discretion of the entity :

(a) Where declaration of dividend is approved by the relevant authority.
  - Example Dividend is approved by board of directors or by management or by shareholder if jurisdiction requires such approval.

b) Where declaration of dividend is approved by the management or board, if no further approval is required.

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Measurement of divided payable

▪ Initial Recognition	▪ An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.
▪ Choice to Owner for Cash or non-cash	▪ If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.
▪ Subsequent Recognition	▪ Any changes in the carrying amount of the dividend payable shall be recognised in equity as adjustments to the amount of the distribution.
▪ Accounting on settlement	▪ Difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable, shall be recognized in profit or loss.

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Dividends on equity shares – Presentation and disclosure

- Difference between carrying amount of the assets distributed and the carrying amount of the dividend payable at the time of settlement as a separate line item in profit or loss.

- Carrying amount of the dividend payable at the beginning and end of the period.

- Increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.

- If after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:
  - Nature of the asset to be distributed
  - Carrying amount of the asset to be distributed as of the end of the reporting period
  - Fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to measure that fair value required to be disclosed by Ind AS 113, Fair Value Measurement.

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Thank you