IND AS 10 – EVENTS AFTER THE REPORTING PERIOD

(TOTAL NO. OF QUESTIONS – 7)

INDEX

RTPs QUESTIONS

Q1 (RTP May 18)

Mac Ltd. purchased goods on credit from Toy Ltd. for Rs 580 lakhs for export. The export order was cancelled. Mac Ltd. decided to sell the same goods in the local market with a price discount. Toy Ltd. was requested to offer a price discount of Rs 10%. Toy Ltd. wants to adjust the sales figure to the extent of the discount requested by Mac Ltd. Discuss whether such a treatment in the books of Toy Ltd. is justified as per the provisions of the relevant Ind AS.

Also, Toy Ltd. entered into a sale deed for its Land on 15th March, 20X1. But registration was done with the registrar on 20th April, 20X1. But before registration, is it possible to recognize the sale and the gain at the balance sheet date? Give reasons in support of your answer.

SOLUTION

Toy Ltd. had sold goods to Mac Ltd on credit worth for Rs. 580 lakhs and the sale was completed in all respects. Mac Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Toy Ltd.

The price discount of 10% offered by Toy Ltd. after request of Mac Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. However, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to sale. Therefore, it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Hence such discount should be charged to the Statement of Profit and Loss and not shown as deduction from the sales figure.

With respect to sale of land, both sale and gain on sale of land earned by Toy Ltd. shall be recognized in the books at the balance sheet date. In substance, the land was transferred with significant risk & rewards of ownership to the buyer before the balance sheet date and what was pending was merely a formality to register the deed. The registration post the balance sheet date only confirms the condition of sale at the balance sheet date as per Ind AS 10 "Events after the Reporting Period."

Q2 (RTP May 19)

XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of the Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017.
Whether it is appropriate to prepare financial statements on a going concern basis?

SOLUTION

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:
"An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends 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. 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."
In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.
In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if an entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on-going concern basis may not be appropriate.

Q3 (RTP Nov 19)

ABC Ltd. received a demand notice on 15thJune, 2017 for an additional amount of Rs. 28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same. The financial statements for the year 2016-17 are approved on 10thAugust, 2017. In July, 2017, the company appealed against the demand of Rs. 28,00,000 and the company had expected that the demand would be settled at Rs. 15,00,000only. Show how the above event will have a bearing on the financial statements for the year 2016-17. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

SOLUTION

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 by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

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

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

In the instant case, the demand notice has been received on 15thJune, 2017, which is between the end of the reporting period and the date of approval of financial statements. Therefore, it is an event after the reporting period. This demand for additional amounts has been raised because of a higher rate of excise duty levied by the Excise Department in respect of goods already manufactured during the reporting period. Accordingly, the condition exists on 31st March, 2017, as the goods have been manufactured during the reporting period on which additional excise duty has been levied and this event has been confirmed by the receipt of demand notice. Therefore, it is an adjusting event.

In accordance with the principles of Ind AS 37, the company should make a provision in the financial statements for the year 2016-17, at best estimate of the expenditure to be incurred, i.e., Rs.15,00,000.

Q4 (RTP November 20)

In one of the plants of PQR Ltd., fire broke out on 10.05.2020 in which the entire plant was damaged. PQR Ltd. estimated the loss of Rs.40,00,000 due to fire. The company filed a claim with the insurance company and expects recovery of Rs.27,00,000 from the claim. The financial statements for the year ending 31.03.2020 were approved by the Board of Directors on 12th June, 2020. Discuss the accounting treatment of the above situation.

SOLUTION

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 by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

Two types of events can be identified:

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

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

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with para 21 of Ind AS 10, disclosures regarding non-adjusting events should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to the going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, since there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and *financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the financial year 2019-2020 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.*

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31.03.2020.

MTPs QUESTIONS

Q5 (April 19)

On 5th April, 20X2, fire damaged a consignment of inventory at one of the Jupiter's Ltd.'s warehouse. This inventory had been manufactured prior to 31st March 20X2 costing Rs. 8 lakhs. The net realisable value of the inventory prior to the damage was estimated at Rs. 9.60 lakhs. Because of the damage caused to the consignment of inventory, the company was required to spend an additional amount of Rs. 2 lakhs on repairing and re-packaging of the inventory. The inventory was sold on 15th May, 20X2 for proceeds of Rs. 9 lakhs.

The accountant of Jupiter Ltd. treats this event as an adjusting event and adjusts this event of causing the damage to the inventory in its financial statement and accordingly re-measures the inventories as follows: Rs. Lakhs

Cost	8.00
Net realisable value (9.6 -2)	7.60
Inventories (lower of cost and net realisable value)	7.60

Analyse whether the above accounting treatment made by the accountant in regard to the financial year ending on 31.0.20X2 is in compliance with the Ind AS. If not, advise the correct treatment along with working for the same.

SOLUTION

The above treatment needs to be examined in the light of the provisions given in Ind AS 10 'Events after the Reporting Period' and Ind AS 2 'Inventories'.

Ind AS 10 'Events after the Reporting Period' defines "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 by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

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

Further, paragraph 10 of Ind AS 10 states that:

"An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period".

Further, Ind AS 2 defines:

"Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale".

Further, Ind AS 2 states that:

"Inventories shall be measured at the lower of cost and net realisable value".

Accountant of Jupiter Ltd. has re-measured the inventories after adjusting the event in its financial statement which is not correct and nor in accordance with provision of Ind AS 2 and Ind AS 10.

Accordingly, the event causing the damage to the inventory occurred after the reporting date and as per the principles laid down under Ind AS 10 'Events After the Reporting Date' is a non-adjusting event as it does not affect conditions at the reporting date. Non-adjusting events are not recognised in the financial statements, but are disclosed where their effect is material.

Therefore, as per the provisions of Ind AS 2 and Ind AS 10, the consignment of inventories shall be recorded in the Balance Sheet at a value of Rs. 8 lakhs calculated below:

	Rs.' Lakhs
Cost	8.00
Net realisable value	9.60
Inventories (lower of cost and net realisable value)	8.00

Q6 (March 22)

In the plant of PQR Ltd., there was a fire on 10th May, 20X1 in which the entire plant was damaged and the loss of Rs. 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of Rs. 27,00,000 is expected.

The financial statements for the year ending 31st March, 20X1 were approved by the Board of Directors on 12th June, 20X1. Show how should it be disclosed?

SOLUTION

In the instant case, since fire took place after the end of the reporting period, it is a non -adjusting event. However, according to Ind AS 10, disclosures regarding material non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, if there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the financial year 20X0- 20X1 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after t he fire, no adjustment is required in the financial statements for the year ending 31 st March, 20X1.

QUESTIONS FROM PAST EXAM PAPERS

Q7 (November 19 – 8 Marks)

Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of accounting standard Ind AS 10.

(i) *Moon Ltd. won an arbitration award on 25th April, 2019 for Rs. 1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements for the year ending 31.03.2019 on 1st May, 2019. The management did not consider the effect of the above transaction in Financial Year 2018-2019, as it was favourable to the Company and the award came after the end of the financial year.*

(ii) *Zoom Ltd. has a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at Rs 5,000 each on 15th March, 2019. The manufacturers of the phone had announced the release of the new version on 1stMarch, 2019 but had not announced the price. Zoom Ltd. has valued inventory at cost of Rs 5,000 each at the year ending 31st March, 2019.*

Due to the arrival of a new advanced version of Mobile Phone on 8th April, 2019, the selling prices of the mobile stocks remaining with the Company were dropped at Rs 4,000 each.

The financial statements of the company valued mobile phones @ Rs 5,000 each and not at the value @ Rs 4,000 less expenses on sales, as the price reduction in selling price was affected after 31.03.2019.

(iii) *There was an old due from a debtor amounting to Rs 15 lakh against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared insolvent on 15th April, 2019.*

(iv) *Assume that subsequent to the year end and before the financial statements are approved, Company's management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of the company's business; however, there is no formal plan yet. Should management recognise a provision in the books, if the company decides subsequent to the end of the accounting year to restructure its operations?*

SOLUTION

As per Ind AS 10, the treatment of stated issues would be as under:

(i) **Adjusting event:** It is an adjusting event as it is 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. Even though winning of award is favorable to the company, it should be accounted in its books as receivable since it is an adjusting event.

(ii) **Adjusting event:** The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period; hence it is an adjusting event as per Ind AS 10. Zoom Limited should value its inventory at Rs 40,00,000. Hence, appropriate provision must be made for Rs 15 lakh.

(iii) **Adjusting event:** As per Ind AS 10, 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.

The bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period.

(iv) **Non – adjusting event:**

Announcing or commencing the implementation of a major restructuring after the reporting period is a non-adjusting event as per Ind AS 10. Though this is a non- adjusting event that occurred after the reporting period, it would result in disclosure of the event in the financial statements, if restructuring is material.

This would not require provision since as per Ind AS 37, decision to restructure was not taken before or on the reporting date. Hence, it does not give rise to a constructive obligation at the end of the reporting period to create a provision.

Q8 (January 21 – 8 Marks)

H Ltd. constructed a warehouse at a cost of Rs. 10 lakhs in 2015. It first became available for use by H Ltd. on 1st January 2016. On 29th January 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th January 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st December 2019. This estimate was Rs. 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rainwater through the crack in the warehouse caused damage to inventory worth about Rs. 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

You are required to:

(i) *Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact;*

(ii) *Discuss disclosure requirement in above case as per relevant Ind AS; and*

(iii) *Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31 st December, 2019?*

SOLUTION

i) Journal Entries on 31st December 2019

	Rs.	Rs.
Depreciation expense A/c (W.N.1) Dr. To Warehouse or Accumulated depreciation A/c (Being additional depreciation expense recognised for the year ended 31st December 2019 arising from the reassessment of the useful life of the warehouse)	**19,608**	**19,608**

Impairment loss A/c (W.N.2) Dr.	**2,47,059**	
To Warehouse or Accumulated depreciation A/c		**2,47,059**
(Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st December 2019)		

ii)

a) The damage to the warehouse is an adjusting event (occurred after the end of the year 2019) for the reporting period 2019, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 2019 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg. regarding estimate of useful life, assessment of impairment indicators etc) and had not affected the financials of prior years.

b) Damage of inventory due to seepage of rainwater Rs. 1,00,000 occurred during the year 2020. It is a non-adjusting event after the end of the 2019 reporting period since the inventory was in good condition at 31st December 2019. Hence, no accounting has been done for it in the year 2019.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. Rs. 1,00,000 loss) in the notes to its 31st December 2019 annual financial statements.

iii) If the damage to the warehouse had been caused by an event that occurred after 31st December 2019 and was not due to structural fault, then it would be considered as a non-adjusting event after the end of the reporting period 2019 as the warehouse would have been in a good condition at 31st December 2019.

Working Notes:

1. **Calculation of additional depreciation to be charged in the year 2019**

Original depreciation as per SLM already charged during the year 2019

= ₹ 10,00,000/ 30 years = ₹ 33,333.

Carrying value at the end of 2018 = 10,00,000 – (₹ 33,333 x 3 years)

= ₹ 9,00,000 Revised depreciation = 9,00,000 / 17 years = ₹ 52,941

Additional depreciation to be recognised in the books in the year 2019

= ₹ 52,941 – ₹ 33,333 = ₹ 19,608

2. **Calculation of impairment loss in the year 2019**

Carrying value after charging depreciation for the year 2019

= ₹ 9,00,000 – ₹ 52,941 = ₹ 8,47,059

Recoverable value of the warehouse = ₹ 6,00,000

Impairment loss = Carrying value - Recoverable value = ₹ 8,47,059 - ₹ 6,00,000 = ₹ 2,47,059