

Institute of Chartered Accountants of New Zealand
FINANCIAL REPORTING STANDARD NO. 5
2000



EVENTS AFTER BALANCE DATE

*Issued by the Financial Reporting Standards Board
Institute of Chartered Accountants of New Zealand*

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Under the Financial Reporting Act 1993*

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This Financial Reporting Standard replaces FRS 5: Accounting for Events Occurring After Balance Date (1994), although that Financial Reporting Standard will continue to apply to general purpose financial reports until an entity elects to comply with this Standard as permitted by the Financial Reporting Act 1993 section 27(7), or until this Standard takes effect, whichever is sooner.

This Financial Reporting Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting issued by the Council, Institute of Chartered Accountants of New Zealand.

FRS-5

The Accounting Standards Review Board has approved FRS-5: Events After Balance Date, for the purposes of the Financial Reporting Act 1993, to apply to the following entities (as respectively defined in the Act): All reporting entities and groups, the Crown and all departments, Offices of Parliament and Crown entities and all local authorities.

1 INTRODUCTION

COMMENTARY

- 1.1 This Standard should be applied in the accounting for, and disclosure of, events after balance date.
- 1.2 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretive commentary paragraphs in plain type-face follow the financial reporting standards.

2 APPLICATION

STANDARD

- 2.1 This Standard applies to the general purpose financial reports of all entities.**
- 2.2 The financial reporting standards set out in this Standard shall apply to all financial reports where such application is of material consequence. A statement, fact, or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial report is completed, is likely to influence the users of the financial report in making decisions or assessments.**
- 2.3 This Standard applies to general purpose financial reports covering periods ending on or after 30 June 2001.**

3 STATEMENT OF PURPOSE

COMMENTARY

- 3.1 The objective of this Standard is to prescribe:
- (a) when an entity should adjust its financial report for events after balance 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 balance date.

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

4 DEFINITIONS

STANDARD

4.1 “Events after balance date” are those events, both favourable and unfavourable, that occur between balance 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 balance date (adjusting events after balance date); and**
- (b) **those that are indicative of conditions that arose after balance date (non-adjusting events after balance date).**

COMMENTARY

4.2 The process involved in authorising the financial report for issue will vary depending upon the governing body structure, statutory requirements and procedures followed in preparing and finalising the financial report.

4.3 In some cases, an entity is required to submit its financial report to its owners for approval after the financial report has already been issued. In such cases, the financial report is authorised for issue on the date of original issuance, not on the date when owners receive the financial report.

Example

The draft financial report of an entity for the year to 31 December 20X1 is completed on 28 February 20X2. On 18 March 20X2, the governing body reviews the financial report and authorises it for issue. The entity announces its net surplus (deficit) and selected other financial information on 19 March 20X2. The financial report is made available to owners and others on 1 April 20X2. The annual meeting of owners receives the financial report 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 governing body authorisation for issue).

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4.4 Events after balance date include all events up to the date when the financial report is authorised for issue, even if those events occur after the publication of an announcement of the net surplus/deficit or of other selected financial information.

5 FINANCIAL REPORTING

Adjusting Events After Balance Date

STANDARD

5.1 An entity must adjust the amounts recognised in its financial report to reflect adjusting events after balance date.

COMMENTARY

5.2 The following are examples of adjusting events after balance date that require an entity to adjust the amounts recognised in its financial report, or to recognise items that were not previously recognised:

- (a) the resolution after balance date of a court case which, because it confirms that an entity already had a present obligation at balance date, requires the entity to adjust a provision already recognised, or to recognise a provision instead of merely disclosing a contingent liability;
- (b) the receipt of information after balance date indicating that an asset was impaired at balance 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 which occurs after the balance date usually confirms that a loss already existed at balance date on a trade receivable account and that the entity needs to adjust the carrying amount of the trade receivable account; and
 - (ii) the sale of inventories after balance date may give evidence about their net realisable value at balance date;
- (c) the determination after balance date of the cost of assets purchased, or the proceeds from assets sold, before balance date;
- (d) the determination after balance date of the amount of profit sharing or bonus payments, if the entity had a present legal or constructive obligation at balance date to make such payments as a result of events before that date; and
- (e) the discovery of fraud or errors that show that the financial report was incorrect.

Non-Adjusting Events After Balance Date

STANDARD

5.3 An entity must not adjust the amounts recognised in its financial report to reflect non-adjusting events after balance date.

COMMENTARY

5.4 An example of a non-adjusting event after balance date is a decline in market value of investments between balance date and the date when the financial report is authorised for issue. The fall in market value does not normally relate to the condition of the investments at the balance date, but reflects circumstances that have arisen in the following period. Therefore, an entity does not adjust the amounts recognised in its financial report for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at balance date, although it may need to give additional disclosure under paragraph 6.5.

Dividends

STANDARD

5.5 If dividends are proposed or declared after balance date, an entity must not recognise those dividends as a liability at balance date.

5.6 An entity must disclose the amount of dividends that were proposed or declared after balance date but before the financial report was authorised for issue.

COMMENTARY

5.7 Disclosure of dividends that were proposed or declared after balance date but before the financial report was authorised for issue can be made either:

- (a) on the face of the statement of financial position as a separate component of equity; or
- (b) in the notes to the financial statements.

Going Concern

STANDARD

5.8 An entity must not prepare its financial report on a going concern basis if the governing body determines after balance date either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

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COMMENTARY

5.9 Deterioration in operating results and financial position after balance date may indicate a need to consider whether the going concern assumption is still appropriate. The going concern assumption should apply only to an entity as a whole. 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. A fundamental change in the basis of accounting may, in rare circumstances, not result in an adjustment to the carrying values of assets and liabilities.

5.10 FRS-1: *Disclosure of Accounting Policies*, requires certain disclosures if the financial report is not prepared on a going concern basis.

6 DISCLOSURES

Date of Authorisation for Issue

STANDARD

6.1 An entity must 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 issuance, the entity must disclose that fact.

COMMENTARY

6.2 It is important for users to know when the financial report was authorised for issue, as the financial report does not reflect events after this date.

Updating Disclosure about Conditions at Balance Date

STANDARD

6.3 If an entity receives information after balance date but before the financial report is authorised for issue, about conditions that existed at balance date, the entity must update disclosures that relate to these conditions, in the light of the new information.

COMMENTARY

6.4 In some cases, an entity needs to update the disclosures in its financial report to reflect information received after balance date but before the financial report is authorised for issue, even when the information does not affect the amounts that the entity recognises in its financial report. One example of the need to update disclosures is when evidence becomes available after balance date about a

contingent liability that existed at balance date. In addition to considering whether it must now recognise a provision under the financial reporting standard on 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 Balance Date

STANDARD

6.5 Where non-adjusting events after balance date are of such importance that non-disclosure would affect the ability of the users of the financial report to make proper evaluations and decisions, an entity must disclose the following information for each significant category of non-adjusting event after balance 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.**

COMMENTARY

6.6 The following are examples of non-adjusting events after balance date that may be of such importance that non-disclosure would affect the ability of the users of the financial report to make proper evaluations and decisions:

- (a) a major business combination after the balance date (the financial reporting standard on accounting for acquisitions resulting in entity combinations requires specific disclosures in such cases) or disposing of a major subsidiary;
- (b) announcing a plan to discontinue an operation, disposing of assets or settling liabilities attributable to a discontinuing operation or entering into binding agreements to sell such assets or settle such liabilities;
- (c) major purchases and disposals of assets, or expropriation of major assets by government;
- (d) the destruction of a major production plant by a fire after balance date;
- (e) announcing, or commencing the implementation of, a major restructuring (see the financial reporting standard on provisions, contingent liabilities and contingent assets);
- (f) major ordinary share transactions and potential ordinary share transactions after balance date;
- (g) abnormally large changes after balance date in asset prices or foreign exchange rates;
- (h) changes in tax rates or tax laws announced after balance date that have a significant effect on current and deferred tax assets and liabilities;
- (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 balance date.

FRS-5

APPENDIX

Comparison of FRS-5 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 1 June 2000 and deals only with significant differences in the standards, is produced for information purposes only and does not form part of the standards in FRS-5. The International Accounting Standard referred to in this Appendix was promulgated by the International Accounting Standards Committee.

The International and Australian accounting standards comparable with FRS-5 are:

- IAS-10 (1999): *Events Occurring After the Balance Sheet Date*
- AASB 1002 (1997): *Events Occurring After Reporting Date*
- AAS 8 (1997): *Events Occurring After Reporting Date*

FRS-5 was derived from IAS-10 and is virtually identical to it. Consequently there are no substantial differences between FRS-5 and IAS-10.

There are significant differences between FRS-5 and AASB 1002 and AAS 8. These are summarised as follows.

Non-Recognition of Proposed Dividends

AASB 1002 and AAS 8 are silent regarding the recognition of proposed dividends.

FRS-5 prohibits the recognition as liabilities at balance date of dividends proposed or declared after balance date but before the financial report is authorised for issue.

Going Concern Assumption

AASB 1002 and AAS 8 treat a going concern event arising after the reporting date as either an adjusting or a non-adjusting event. If an event provides evidence of conditions that existed at the reporting date, AASB 1002 and AAS 8 require the financial effect to be reflected in the financial reports. If an event provides evidence of conditions arising after the reporting date, AASB 1002 and AAS 8 require disclosure only, and do not permit adjustments to be made to the financial reports.

FRS-5 treats a going concern event as a separate issue. A going concern event requires a change to the measurement base, regardless of whether the event provides evidence of conditions that arose after balance date.

History

Previously issued accounting standards superseded by this Financial Reporting Standard:

FRS-5: Accounting for Events Occurring After Balance Date (issued March 1994 and effective for periods ending on or after 1 July 1994).

SSAP-5: Accounting for Events Subsequent to Balance Date (issued July 1985 and effective for periods beginning on or after 1 April 1985).

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