Exposure Draft

Accounting Standard (AS) 4 (Revised 20XX)

(Corresponding to IAS 10)

Events after the Reporting Period

(Last date for Comments: February 01, 2010)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 4 (Revised 20XX)
(Corresponding to IAS 10)
Events after the Reporting Period

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Exposure Draft

Accounting Standard (AS) 4 (Revised 20XX)[1]
(Corresponding to IAS 10)
Events after the Reporting Period

Following is the Exposure Draft of the Accounting Standard (AS) 4 (Revised 20XX), Events after the Reporting Period, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than ***February 01, 2010****. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org*.

(This Exposure Draft of the revised Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the revised Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[2]).*

Objective

1. The objective of this Standard is to prescribe:

   (a) When an entity should adjust its financial statements for events after the reporting period; and

   (b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

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[1] This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Exposure Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

[2] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

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

Scope

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

Definitions

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

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 authorised 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***).**

4. The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

5. In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorised for issue on the date of issue, not the date when shareholders approve the financial statements.

Example

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

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

Example

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

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

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

Recognition and measurement

Adjusting events after the reporting period

8. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

9. The following are examples of adjusting events after the reporting period 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 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 AS 29 (Revised 20XX) *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 AS 29 (Revised 20XX).

(b) 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. For example:

(i) the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period 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 period may give evidence about their net realisable value at the end of the reporting period.

(c) 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.

(d) 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 (see AS 15 (Revised 20XX) *Employee Benefits).*

(e) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting events after the reporting period

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

11. An example of a non-adjusting event after the reporting period is a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, 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 end of the reporting period, 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 AS 31 (Revised 20XX*) Financial Instruments: Presentation*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.**

13. If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with AS 1 (Revised 20XX) *Presentation of Financial Statements*.

Going concern

14. 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.

15. 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.

16. AS 1 (Revised 20XX) 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.

Disclosure

Date of authorisation for issue

17. An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

18. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the end of the reporting period

19. 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.

20. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, 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 period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognise or change a provision under AS 29 (Revised 20XX), an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting events after the reporting period

21. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(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 period that would generally result in disclosure:

(a) a major business combination after the reporting period (AS 14 (Revised 20XX) *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 AS 24 (Revised 20XX), *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 period;

(e) announcing, or commencing the implementation of, a major restructuring (see AS 29 (Revised 20XX));

(f) major ordinary share transactions and potential ordinary share transactions after the reporting period (AS 20 (Revised 20XX) *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 AS 20 (Revised 20XX));

(g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see AS 22 (Revised 20XX) *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 period.

Effective date

23. An entity shall apply this Accounting Standard for accounting periods commencing on or after 1st April 2011 and will be mandatory in nature[3] from that date.

Withdrawal of AS 4 (revised 1995)

24. This Standard supersedes AS 4 *Contingencies and Events Occurring After the Balance Sheet Date* (revised 1995).

[3] This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Appendix A

Distribution of Non-cash Assets to Owners (Corresponding to IFRIC 17)

Background

1 Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its owners[4] acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative.

2 Accounting Standards (ASs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). AS 1 (Revised 20XX) requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements.

Scope

3 This Appendix applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (eg items of property, plant and equipment, businesses as defined in AS 14 (Revised 20XX), ownership interests in another entity or disposal groups as defined in AS 24 (Revised 20XX); and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

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

5 This Appendix does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

6 In accordance with paragraph 5, this Appendix does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. Paragraph B2 of AS 14 (Revised 20XX) states that ‘A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.’ Therefore, for a distribution to be outside the scope of this Appendix on the basis that the same parties control the asset both before and after the distribution, a group of

[4] Paragraph 7 of AS 1 (Revised 20XX) defines owners as holders of instruments classified as equity.

individual shareholders receiving the distribution must have, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution.

7 In accordance with paragraph 5, this Appendix does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with AS 21 (Revised 20XX).

8 This Appendix addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

Issues

9 When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Consequently, this Appendix addresses the following issues:

(a) When should the entity recognise the dividend payable?

(b) How should an entity measure the dividend payable?

(c) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

Accounting Principles

When to recognise a dividend payable

10 The liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date:

(a) when declaration of the dividend, eg by management or the board of directors, is approved by the relevant authority, eg the shareholders, if the jurisdiction requires such approval, or

(b) when the dividend is declared, eg by management or the board of directors, if the jurisdiction does not require further approval.

Measurement of a dividend payable

11 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.

12 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.

13 At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable

14 When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Presentation and disclosures

15 An entity shall present the difference described in paragraph 14 as a separate line item in profit or loss.

16 An entity shall disclose the following information, if applicable:

(a) the carrying amount of the dividend payable at the beginning and end of the period; and

(b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.

17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

(a) the nature of the asset to be distributed;

(b) the carrying amount of the asset to be distributed as of the end of the reporting period; and

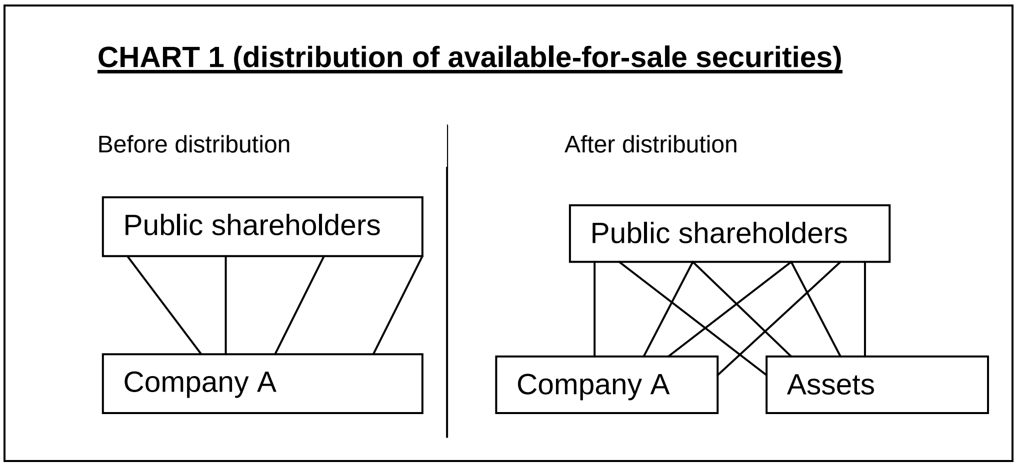
(c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by AS 32 (Revised 20XX) paragraph 27(a) and (b).

18 [Deleted]

Illustrative examples

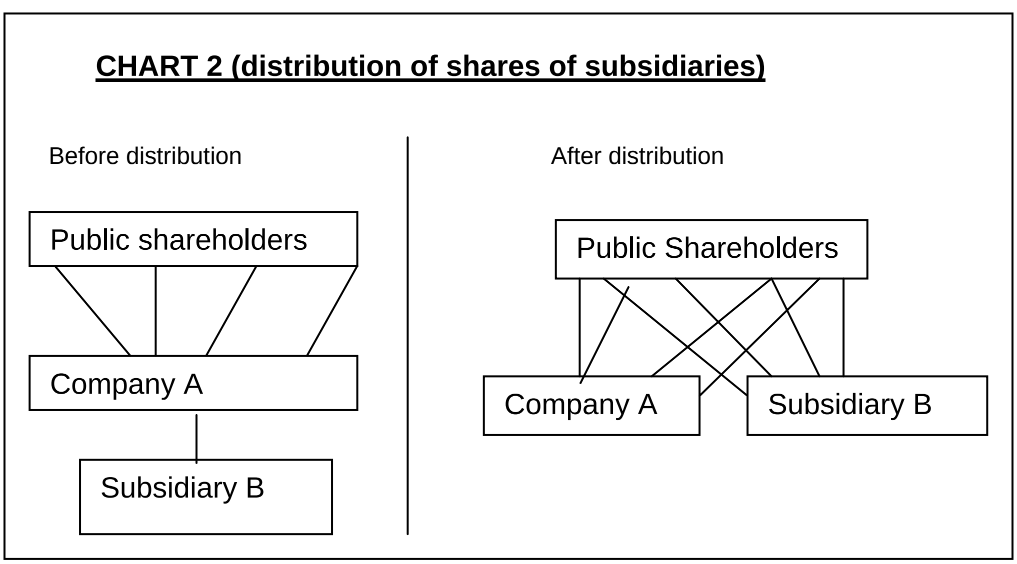
These examples accompany, but are not part of this appendix

Scope of the Appendix (paragraphs 3–8)



IE1 Assume Company A is owned by public shareholders. No single shareholder controls Company A and no group of shareholders is bound by a contractual agreement to act together to control Company A jointly. Company A distributes certain assets (eg available-for-sale securities) pro rata to the shareholders. This transaction is within the scope of the Appendix.

IE2 However, if one of the shareholders (or a group bound by a contractual agreement to act together) controls Company A both before and after the transaction, the entire transaction (including the distributions to the non-controlling shareholders) is not within the scope of the Appendix. This is because in a pro rata distribution to all owners of the same class of equity instruments, the controlling shareholder (or group of shareholders) will continue to control the non-cash assets after the distribution.



IE3 Assume Company A is owned by public shareholders. No single shareholder controls Company A and no group of shareholders is bound by a contractual agreement to act together to control Company A jointly. Company A owns all of the shares of Subsidiary B. Company A distributes all of the shares of Subsidiary B pro rata to its shareholders, thereby losing control of Subsidiary B. This transaction is within the scope of the Appendix.

IE4 However, if Company A distributes to its shareholders shares of Subsidiary B representing only a non-controlling interest in Subsidiary B and retains control of Subsidiary B, the transaction is not within the scope of the Appendix. Company A accounts for the distribution in accordance with AS 21 *Consolidated and Separate Financial Statements* (Revised 20XX). Company A controls Company B both before and after the transaction.

Appendix B

Conflicting Legal and Regulatory Issues

<u>Note</u>: This Appendix is not a part of the Accounting Standard (AS) 4 (revised 20XX) Events After the Reporting Period. Some of the situations or accounting treatments prescribed in AS 4 (revised 20XX) may not be in conformity with the present requirements of applicable laws/regulations in the country. In such cases, the provisions of the applicable laws/regulations will prevail. This Appendix contains the following such instances.

Conflicting Issues with Schedule VI

(i) Dividend declared by the entity after the reporting period, is not recognised as a liability at the end of the reporting period under AS 4 (Revised 20XX). Such dividend, however, is required to be disclosed in the notes to the balance sheet, in accordance with AS 1 (Revised 20XX). In contrast, dividend declared but not paid or proposed dividend both are shown as a liability in the financial statements as per the requirements of Schedule VI to the Companies Act, 1956.

Appendix C

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 4 (Revised 20XX) and the corresponding International Accounting Standard (IAS) 10, Events after the Reporting Period.

Comparison with IAS 10, *Events after the Reporting Period and IFRIC Interpretation 17*

The requirements contained in the AS 4 (Revised 20XX) are the same as those contained in International Accounting Standard (IAS) 10, *Events after the Reporting Period,* issued by the International Accounting Standards Board (IASB) and IFRIC 17, *Distributions of Non-cash Assets to Owners.* There is no difference between the AS 4 (Revised 20XX) and IAS 10 and, IFRIC 17.

Appendix D

Note: This Appendix is provided to bring out the major differences between the exposure draft of AS 4 (Revised 20XX) and existing AS 4 with a view to facilitate commentators in sending their comments on the exposure draft of AS 4 (Revised 20XX).

Major Differences between the Exposure Draft of AS 4 (Revised 20XX) and existing AS 4

(i) In the exposure draft of AS 4 (Revised 20XX), the term 'events after the reporting period' has been defined as those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue, and date of authorisation for issue has been adequately explained through examples. Whereas, the existing AS 4 does not use the term 'authorised for issue' and defines the events occurring after the balance sheet date as those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which 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.

(ii) In the exposure draft of AS 4 (Revised 20XX), material non-adjusting events are required to be disclosed in the financial statements, whereas the existing AS 4 requires the same to be disclosed in the report of approving authority.

(iii) As per the exposure draft of AS 4 (Revised 20XX) dividend proposed or declared after the reporting period, cannot be recognised as a liability in the financial statements because it does not meet the criteria of a present obligation as per AS 29 (Revised 20XX). Such dividend is required to be disclosed in the notes in the financial statements as per AS 1 (Revised 20XX), whereas as per the existing AS 4 the same is required to be adjusted in financial statements because of the requirements prescribed in the Schedule VI to the Companies Act, 1956.

(iv) If after the reporting date, it is determined that the fundamental accounting assumption of going concern is no longer appropriate, the exposure draft of AS 4 (Revised 20XX) requires a fundamental change in the basis of accounting. Whereas existing AS 4 requires assets and liabilities to be adjusted for events occurring after the balance sheet date that indicate that the fundamental accounting assumption of going concern is not appropriate.

In this regard, the exposure draft of AS 4 (Revised 20XX) refers to AS 1 (Revised 20XX), which requires an entity to make the following disclosures:

- the fact that the financial statements are not prepared on a going concern basis together with the basis on which the financial statements are prepared
- the reason why the entity is not regarded as a going concern.

Existing AS 4 does not require any such disclosure, However, existing AS 1 requires the disclosure of the fact in case going concerns assumption is not followed.

(v) Exposure Draft of AS 4 (Revised 20XX) requires certain additional disclosures as compared to existing AS 4, such as, the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, that fact is also required to be disclosed as per the Exposure Draft of AS 4(Revised 20XX).

(vi) Exposure Draft of AS 4(Revised 20XX) gives guidance on accounting for non-cash distributions to owners. Whereas the existing AS 4 does not contain this guidance.