

Hong Kong Accounting Standard 10

Events after the Balance Sheet Date

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| <p>(a) An entity shall apply amendments resulting from <i>Improvements to HKFRSs</i> issued in October 2008 for annual periods beginning on or after 1 January 2009.</p> <p>(b) <u>An entity shall apply amendments resulting from HK(IFRIC) Int-17 <i>Distributions of Non-cash Assets to Owners</i> issued in December 2008 for annual periods beginning on or after 1 July 2009.</u></p> |
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Hong Kong Accounting Standard 10 *Events after the Balance Sheet Date* (HKAS 10) is set out in paragraphs 1-24 and the Appendix. All the paragraphs have equal authority. HKAS 10 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Hong Kong Accounting Standard 10

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 balance sheet date; 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 balance sheet date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the balance sheet date 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 balance sheet date.*

Definitions

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

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date 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 balance sheet date (adjusting events after the balance sheet date); and*
 - (b) *those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).*
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 balance sheet date 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 Balance Sheet Date

8. *An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date.*
9. The following are examples of adjusting events after the balance sheet 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 balance sheet date of a court case that confirms that the entity had a present obligation at the balance sheet date. The entity adjusts any previously recognised provision related to this court case in accordance with HKAS 37 *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 HKAS 37.
- (b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet 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 balance sheet date usually confirms that a loss existed at the balance sheet 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 balance sheet date may give evidence about their net realisable value at the balance sheet date.
- (c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date.
- (d) the determination after the balance sheet date of the amount of profit sharing or bonus payments, if the entity had a present legal or constructive obligation at the balance sheet date to make such payments as a result of events before that date (see HKAS 19 *Employee Benefits*).
- (e) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting Events after the Balance Sheet Date

- 10.** *An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date.*
11. An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date 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 balance sheet 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 balance sheet 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 HKAS 32 **Financial Instruments: Disclosure and Presentation**) after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date.*

13. If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the balance sheet date but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the balance sheet date because they do not meet the criteria of a present obligation in HKAS 37. Such dividends are disclosed in the notes to the financial statements in accordance with HKAS 1 *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 balance sheet 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 balance sheet 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. HKAS 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 balance sheet date.

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 Balance Sheet Date

19. *If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, it shall update disclosures that relate to those conditions, in the light of the new information.*

* For Hong Kong incorporated companies, please also refer to the legal requirements as set out in the footnotes to paragraphs 95 and 125 of HKAS 1 and the example on the disclosure of proposed dividend as attached to HKAS 1.

20. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the balance sheet 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 balance sheet date about a contingent liability that existed at the balance sheet date. In addition to considering whether it should recognise or change a provision under HKAS 37 *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 Balance Sheet Date

21. *If non-adjusting events after the balance sheet date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the balance sheet 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 balance sheet date that would generally result in disclosure:
- (a) a major business combination after the balance sheet date (HKFRS 3 *Business 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 (see HKAS 35 *Discontinuing Operations*);~~
 - (c) ~~major purchases and disposals of assets, or expropriation of major assets by government;~~ major purchases of assets, classification of assets as held for sale in accordance with HKFRS 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 balance sheet date;
 - (e) announcing, or commencing the implementation of, a major restructuring (see HKAS 37);
 - (f) major ordinary share transactions and potential ordinary share transactions after the balance sheet date (HKAS 33 *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 HKAS 33);
 - (g) abnormally large changes after the balance sheet date in asset prices or foreign exchange rates;
 - (h) changes in tax rates or tax laws enacted or announced after the balance sheet date that have a significant effect on current and deferred tax assets and liabilities (see HKAS 12 *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 balance sheet date.

Effective Date

23. *An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.*

23A. If an entity decides to apply this Standard for an earlier period, it is not required to apply all the HKASs with the effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period.

Withdrawal of SSAP 9 (revised 2001)

24. This Standard supersedes SSAP 9 *Events After the Balance Sheet Date* revised in 2001.

Appendix

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at 9 March 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 10.

The International Accounting Standard comparable with HKAS 10 is IAS 10 *Events after the Balance Sheet Date*.

There are no major textual differences between HKAS 10 and IAS 10.

Appendix

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

~~As explained in the introduction to this Standard, the accounting standard and paragraph references that appear below may differ from those found in the existing SSAPs as they have taken into account the changes to be made to the name, number, paragraph numbering as well as appendix referencing of the existing SSAPs in order to conform to those of the equivalent IASs.~~

~~A1. In HKAS 22 Business Combinations, paragraph 97 is amended to read as follows:~~

~~97. Business combinations effected after the balance sheet date and before the date on which the financial statements of one of the combining entities are authorised for issue are disclosed if they are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements (see HKAS 10 Events after the Balance Sheet Date).~~

~~A2. In HKAS 35 Discontinuing Operations, paragraph 32 is amended to read as follows:~~

~~32. The asset disposals, liability settlements, and binding sale agreements referred to in the preceding paragraph may occur concurrently with the initial disclosure event, or in the period in which the initial disclosure event occurs, or in a later period. In accordance with HKAS 10 Events after the Balance Sheet Date, if some of the assets attributable to a discontinuing operation have actually been sold or are the subject of one or more binding sale agreements entered into after the balance sheet date but before the board approves the financial statements for issue, the financial statements include the disclosures required by paragraph 31 if the effects are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.~~

~~A3. In HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, paragraph 75 are amended to read as follows and paragraph 96 is deleted:~~

~~75. A management or board decision to restructure taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before the balance sheet date:~~

~~(a) started to implement the restructuring plan; or~~

~~(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.~~

~~If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date, disclosure is required under HKAS 10 *Events after the Balance Sheet Date*, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.~~

~~96. [Deleted]~~

~~A4. In Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations in issue at December 2003, references to the current version of SSAP 9 *Events After the Balance Sheet Date* are amended to HKAS 10 *Events after the Balance Sheet Date*.~~

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Standard resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) - effective for annual periods beginning on or after 1 January 2009

The title is amended to '*Events after the Reporting Period*'.

The title (as amended) above the Objective is footnoted as follows:

'As a consequence of the revision of HKAS 1 Presentation of Financial Statements in December 2007, the title of HKAS 10 was amended from Events after the Balance Sheet Date to Events after the Reporting Period'

In paragraph 21, 'of users taken' is amended to 'that users make'.

HK(IFRIC)-Int 17 *Distributions of Non-cash Assets to Owners* (issued in December 2008) - effective for annual periods beginning on or after 1 July 2009

Paragraph 13 is amended (deleted text is struck through).

Dividends

- 13 If dividends are declared ~~(ie the dividends are appropriately authorised and no longer at the discretion of the entity)~~ 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 HKAS 1 *Presentation of Financial Statements*.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, HKAS 10.

HKAS 10 is based on IAS 10, *Events after the Balance Sheet Date*. In approving HKAS 10, the Council of the Hong Kong Society of Accountants considered and agreed with the IASB's basis for conclusions on IAS 10 (as revised 2003). Accordingly, there are no significant differences between HKAS 10 and IAS 10. The IASB's basis for conclusions is reproduced below for reference. The paragraph numbers of IAS 10 referred to below generally correspond with those in HKAS 10.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 10 *Events After the Balance Sheet Date* in 2003. Individual Board members gave greater weight to some factors than to others.
- BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 10. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.
- BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for events after the balance sheet date established by IAS 10, this Basis for Conclusions does not discuss requirements in IAS 10 that the Board has not reconsidered.

Limited Clarification

- BC4 For this limited clarification of IAS 10 the main change made is in paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if dividends are declared after the balance sheet date, an entity shall not recognise those dividends as a liability at the balance sheet date. This is because undeclared dividends do not meet the criteria of a present obligation in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Board discussed whether or not an entity's past practice of paying dividends could be considered a constructive obligation. The Board concluded that such practices do not give rise to a liability to pay dividends.

Appendix

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

The title is amended to ‘**Basis for Conclusions on IAS 10 *Events after the Reporting Period***’ and footnoted as follows:

In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the amendments in IAS 1 *Presentation of Financial Statements* (as revised in 2007).

Paragraph BC4 is footnoted as follows:

BC4 For this limited clarification of IAS 10 the main change made is in paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if dividends are declared after the balance sheet date,* an entity shall not recognise those dividends as a liability at the balance sheet date. ...

* IAS 1 *Presentation of Financial Statements* (as revised in 2007) replaced the term ‘balance sheet date’ with ‘end of the reporting period’.

Table of Concordance

This table shows how the contents of the superseded SSAP 9 and the current HKAS 10 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded SSAP 9 paragraph	Current HKAS 10 paragraph
Objective	1
1	2
2	3
3	4
4	5
5	6
6	7
7	8
8	9
9	10
10	11
11	12
12	13

Superseded SSAP 9 paragraph	Current HKAS 10 paragraph
13	14
14	15
15	16
16	17
17	18
18	19
19	20
20	21
21	22
22	23
23	None
None	24