SLAS 12 (Revised 2001)

Sri Lanka Accounting Standard SLAS 12
(Revised 2001)

EVENTS AFTER THE BALANCE SHEET DATE
Introduction

SLAS 12, Events After the Balance Sheet Date, replaces those parts of SLAS 12, Contingencies and Events Occurring After the Balance Sheet Date, that have not already been superseded by SLAS 36, Provisions, Contingent Liabilities and Contingent Assets. The new Standard makes the following limited changes:

(a) new disclosures about the date of the authorisation of the financial statements for issue;

(b) deletion of the option to recognise a liability for dividends that are stated to be in respect of the period covered by the financial statements and are proposed or declared after the balance sheet date but before the financial statements are authorised for issue. An enterprise may give the required disclosure of such dividends either on the face of the balance sheet as a separate component of equity or in the notes to the financial statements;

(c) confirmation that an enterprise should update disclosures that relate to conditions that existed at the balance sheet date in the light of any new information that it receives after the balance sheet date about those conditions;

(d) deletion of the requirement to adjust the financial statements where an event after the balance sheet date indicates that the going concern assumption is not appropriate for part of the enterprise. Under SLAS 3, Presentation of Financial Statements, the going concern assumption applies to an enterprise as a whole;

(e) certain refinements to the examples of adjusting and non-adjusting events; and

(f) various drafting improvements.
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Events After the Balance Sheet Date

The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Preface to Sri Lanka Accounting Standards. Sri Lanka Accounting Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe:

(a) when an enterprise should adjust its financial statements for events after the balance sheet date; and

(b) the disclosures that an enterprise 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 enterprise 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

1. This Standard should be applied in the accounting for, and disclosure of, events after the balance sheet date.
Definitions

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

Events after the balance sheet date are those events, both 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).

3. 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.

4. In some cases, an enterprise is required to submit its financial statements to its shareholders for approval after the financial statements have already been issued. In such cases, the financial statements are authorised for issue on the date of original issuance, not on the date when shareholders approve the financial statements.
Example

The management of an enterprise 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 enterprise 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 annual meeting of shareholders approves the financial statements 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).

5. 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 publication of a profit announcements or of other selected financial information.
Recognition and Measurement

Adjusting Events After the Balance Sheet Date

6. An enterprise should adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date.

7. The following are examples of adjusting events after the balance sheet date that require an enterprise to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the resolution after the balance sheet date of a court case which, because it confirms that an enterprise already had a present obligation at the balance sheet date, requires the enterprise to adjust a provision already recognised, or to recognise a provision instead of merely disclosing a contingent liability;

(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 which occurs after the balance sheet date usually confirms that a loss already existed at the balance sheet date on a trade receivable account and that the enterprise needs to adjust the carrying amount of the trade receivable account; 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;
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(d) the determination after the balance sheet date of the amount of profit sharing or bonus payments, if the enterprise had a present legal or constructive obligation at the balance sheet 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 statements were incorrect.

Non-Adjusting Events After the Balance Sheet Date

8. An enterprise should not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the balance sheet date.

9. 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 fall in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that have arisen in the following period. Therefore, an enterprise does not adjust the amounts recognised in its financial statements for the investments. Similarly, the enterprise 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 20.

Dividends

10. If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date.

11. SLAS 3, Presentation of Financial Statements, requires an enterprise to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue. SLAS 3 permits an enterprise to make this disclosure either:

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

Going Concern

12. An enterprise should 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 enterprise or to cease trading, or that it has not realistic alternative but to do so.

13. 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.

14. SLAS 3, Presentation of Financial Statements, requires certain 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 enterprise’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

15. An enterprise should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the enterprise’s owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact.

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

Updating Disclosure about Conditions at the Balance Sheet Date

17. If an enterprise receives information after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should update disclosures that relate to these conditions, in the light of the new information.

18. In some cases, an enterprise 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 the enterprise 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 now recognise a provision under SLAS 36, Provisions, Contingent Liabilities and Contingent Assets, an enterprise updates its disclosures about the contingent liability in the light of that evidence.
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Non-Adjusting Events After the Balance Sheet Date

19. Where non-adjusting events after the balance sheet date are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an enterprise should disclose the following information for each significant 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.

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

(a) a major business combination after the balance sheet date (SLAS 25, 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;

(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 the balance sheet date;

(e) announcing, or commencing the implementation of, a major restructuring (see SLAS 36, Provisions, Contingent Liabilities and Contingent Assets);
(f) major ordinary share transactions and potential ordinary share transactions after the balance sheet date (SLAS 34, Earnings Per Share, encourages an enterprise to disclose a description of such transactions, other than capitalisation issues and share splits);

(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 SLAS 14, Accounting for Taxes on Income);

(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.

Compliance with International Accounting Standards

21. Compliance with this SLAS ensures compliance in all material respects with International Accounting Standard IAS 10, Events After the Balance Sheet Date.

Effective Date

22. This Sri Lanka Accounting Standard becomes operative for annual financial statements covering periods beginning on or after 1 April 2002.