
Accounting the Events after the Balance Date

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The events after the balance date are those events, favorable and unfavorable, that occur between the balance date (the end of the reporting period) and the date at which the annual financial statements are authorized for issue by the executive management of the entity (e.g. Board of Directors).

We identify two types of events: events after the balance date, which lead to financial statements adjusting and events after the balance date, which do not lead to financial statements adjusting.

The process of authorizing the publishing of the financial statements depends on the structure of the reporting entity, on normalization and on procedures followed in preparing and finalizing the financial statements.

Some entities submit the financial statements for approval to their owners after they have been published. In such cases, the financial statements are authorized for publication on the date of publication, not the date they were approved by the owners.

The events after the reporting period include all events up to the date the financial statements are authorized for publication, even if those events occur after the public announcement of profit or of other selected financial information.

Keywords: *subsequent events, financial statements, reporting period, adjusting the financial statements.*

JEL Classification: M41; M40; B21; B22.

Introduction

The issue specific to accounting the events after the balance date is solved in Romania by the Accounting regulations compliant with the European directives [1. MFP] and the Accounting regulations compliant with the International Financial Reporting Standards [2. MPF] in accordance with IAS 10 Events after the Reporting Period [3. IFRS].

Presentation of the detail elements regarding the recognition, evaluation and reprocessing of the events after the balance date / reporting period based on the rules mentioned

The general rules set out in the national regulations have the following determinations:

- 1) the definition of the events after the balance date: they are events, both favourable and unfavourable, that occur between the balance date and the date the financial statements are authorized for issue;
- 2) types of events: [4. C.E.C.A.R.]
 - a) those that provide evidence of the conditions that existed at the balance date (events after the balance date that lead to adjusting the financial statements). For example, the settlement, after the balance date, of a litigation that confirms the fact that the entity had a present obligation at the balance date; obtaining an information after the balance date indicating that an asset was impaired at the balance date or that the amount of a previously recognized impairment loss for that asset needs to be adjusted (e.g. a customer's bankruptcy occurred at the end of the reporting period, in these circumstances, the entity shall adjust the carrying amount of trade receivables account; the sale of stocks after the reporting period may give evidence about their net realizable value at the end of the reporting

- period); the discovery of frauds or errors that show that the financial statements are incorrect etc.
- b) those that are indicative of the conditions that arose after the balance date (events after the balance date that do not lead to adjusting the financial statements), for example, a reduction in the market value for a financial investment (financial investments) between the balance date and the date on which the financial statements are authorized for issue. The decrease of the market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects the circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognized in its financial statements for these investments. Similarly, the entity does not update the amounts disclosed for the investments in question at the end of the reporting period, although the entity may be under the necessity of submitting additional information in the notes.

Other examples of events after the balance date that do not lead to adjusting the financial statements, but that generally lead to the disclosure of information (in the notes) are: a major combination of businesses produced after the reporting period or the concession of a major subsidiary (IFRS 3); the announcement of a plan to discontinue an activity; the major purchase of assets, the classification of some assets as being held for hunting (IFRS 5), the expropriation of major assets by the government; the destruction of assets in a fire; the announcement or termination of a major restructuring (IAS 37); significant transactions with the entity's shares (IAS 33); large changes in asset prices and / or exchange rates; the modification of tax policies or tax laws enacted or announced (example: income tax rate modification which has a significant effect on the receivables or debts regarding the current and deferred tax (IAS 12)).

As far as the dividends are concerned, if an entity declares the dividends to the holders of the equity instruments after the reporting period, the entity does not have to recognize those dividends as a liability at the end of the reporting period.

Regarding the use of the principle of the continuity of the activity, an entity should not prepare its financial statements based on the continuity

of the activity if the management determines, at the end of the next 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 which case it will move to the values liquidation basis.

The elements of detail regarding the recognition, evaluation and reprocessing of the events after the balance date presented in the Accounting regulations compliant with the European directives (RDE) are displayed as follows:

Disclosure requirements related to the date of authorization for submission are the following:

- The date on which the financial statements were authorized for submission;
- The name of the person who gave the authorization;
- The name of the party (if any) which has the power to amend the financial statements after issuance.

Regarding the events that do not lead to the adjusting of the financial statements that would affect the financial statements users' ability to make assessments and to make sound decisions, the following information shall be presented:

- The nature of the event;
- An estimate of the financial effect;
- A statement according to which such an estimate cannot be made.

The disclosures relating to conditions that existed at the balance date should be updated in the light of any new information referring to those conditions and that are received after the balance date.

The following provisions of detail are taken from [5. M.F.P.] RDE:

The events after the balance date are those events, favourable and unfavourable, that occur between the balance date and the date on which the annual financial statements are authorized for issue.

In the sense these regulations, the annual financial statements authorization means their approval by a board of directors, trustees or other governing bodies, according to the organization of the entity, in view of their submission for approval, according to the law.

The events after the balance date include all the events occurring up to the date on which the annual financial statements are authorized for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Two types of events after the balance date can be identified:

- a) those that provide evidence of the conditions that existed at the balance date. These events after the balance date lead to the adjusting of the annual financial statements; and
- b) those that are indicative of the conditions that arose after the balance date. These events after balance date do not lead to the adjusting of the annual financial statements.

In the case of the events after the balance date that lead to the adjusting of the annual financial statements, the entity adjusts the amounts recognized in its financial statements in order to reflect the events after the balance date.

Examples of events after the balance date that lead to the adjusting of the financial statements and that require the entity to adjust the amounts recognized in its financial statements or to recognize the items that were not previously recognized are the following:

- a) The settlement, after the balance date, of a litigation that confirms the fact that the entity has a present obligation at the balance date. The entity adjusts any previously recognized provision, regarding this litigation, or recognizes a new provision. As a result, the entity does not have a contingent liability;
- b) The bankruptcy of a customer, occurred after the balance date, usually confirms that on the balance date there was a loss associated to a trade receivable and, accordingly, the entity must adjust the carrying amount of the trade receivables;
- c) The discovery of frauds or errors that show that the annual financial statements are incorrect.

In the case of the events after the balance date that do not lead to the adjusting of the annual financial statements, the entity does not adjust its amounts recognized in its financial statements in order to reflect the events after the balance date.

An example of an event after the balance date, which does not lead to the adjustment of the annual financial statements, is the reduction of the market value of the securities in the interval between the balance date and the date on which the annual financial statements are authorized for issue.

If an entity receives, after the balance date, information about the conditions that existed at the balance date, the entity must update the

presentation of information that refer to those conditions, in the light of new information.

When the events after the balance date do not lead to the adjusting of the annual financial statements are significant, their non-disclosure could influence the economic decisions of the users. Accordingly, an entity must disclose the following information for each significant category of events after the balance date:

- a) the nature of the event; and
- b) an estimate of the financial effect or a statement that such an estimate cannot be made.

We present below some case studies taken and adapted from the specialty literature

Example 1. [6. Popa, (2007)]

- An example regarding the receivables – customers:

At 31st of December N, the Alfa Company has receivables costumers amounting to 4,350,000 lei. The Company calculates the adjustments for the impairment of the receivables costumers based on the experience of the previous years in terms of the probability of not collecting the debts, depending on their age, which is the time since the debt should have been collected.

<i>The age of the receivables</i>	<i>Maximum one month</i>	<i>Maximum three months</i>	<i>Maximum six months</i>	<i>Maximum one year</i>	<i>Over a year</i>
<i>The gross amount of the receivables</i>	500,000 lei	400,000 lei	200,000 lei	150,000 lei	100,000 lei
<i>The probability of not collecting</i>	5%	9%	15%	27%	40%

For term receivables whose collection term has not matured yet, the company, based on the experience of previous years, has established a probability of not collecting of 2%. The amount of receivables that have not

matured is 3,000,000. Half of these receivables are the result of the sales made by the company to Beta enterprise, which is the main client of the company. In 31.12.N, the Beta Company's financial situation was unfavourable, but due to the creditworthiness of this company who has always paid its debts on time, the Alfa Company did not consider this aspect.

- a) What is the impairment of the receivables customers at December 31, N and how is it recorded in accounting?
- b) Alpha Company authorizes for issuing the financial statements for the year N on February 24, N + 1. At the end of January N + 1, Beta Company announced publicly that goes into bankruptcy (the opening of insolvency¹ in the event of inability to pay) due to failure to pay outstanding debts. Alfa Company estimates that, following the completion of bankruptcy proceedings (declaring judicial bankruptcy) for Beta Company (if the procedure of judicial reorganization fails), will recover only 20% of the receivables it had against this company. What is the amount by which Alfa Company must adjust its financial statements for the year N?

a) At 31.12.N, depreciation of receivables customers = 3,000,000 lei x 2% + 500,000 lei x 5% + 400,000 lei x 9% + 200,000 lei x 15% + 150,000 lei x 27% + 100,000 lei x 40% = 231,500 lei.

231,500 lei 6814 = 491 231,500 lei

¹ 1. The insolvency procedure is the legal procedure that opens, at the request of the debtor and creditors, if a company is insolvent. Under the law, the insolvency state is that state of the society's heritage that is characterized by the insufficiency of the available funds for the payment of certain, liquid and due debts.

2. The bankruptcy procedure is the insolvency procedure that applies to the debtor in the view of liquidating his assets to cover the liabilities, being followed by the removal of the debtor from the register of registration.

3. The judicial reorganization procedure is the insolvency procedure that applies to the debtor in order to pay its debts, according to the schedule of receivables payment. The reorganization procedure implies the preparation, approval, implementation and compliance with a plan, called reorganization plan, which can provide, together or separately:

- a) the operational and / or financial restructuring of the debtor;
- b) the corporate restructuring by changing the structure of the joint stock;
- c) restricting the activity through the liquidation of some assets of the debtor.

The insolvency procedure is an "umbrella" procedure which includes the reorganization and / or the bankruptcy procedure. (<http://legestart.ro/cateva-informatii-utile-despre-insolventa-faliment-si-reorganizare-judiciara/>)

See Law no. 85/2014 on procedures to prevent insolvency and of insolvency.

Operating expenses regarding the adjustments for the depreciation of current assets Adjustments for the depreciation of the receivables – customers

Extract from the notes to the financial statements on 31st of December N

The gross amount of the receivables – costumers = 4,350,000 lei

(-) Depreciation recognized at the end of financial year N = 231,500 lei

(=) The carrying amount of the receivables costumers at December 31, N = 4,350,000 lei - 231,500 lei = 4,118,500 lei (the amount recognized in the balance sheet for the receivables costumers reflecting the amount likely to be received).

b) Since the commencement of the bankruptcy procedure (start of the insolvency) for Beta Company is known before the date at which the financial statements of the previous financial year are authorized for issue, the Alfa Company should consider this event that certifies the unfavourable financial situation of Beta Company, which exists since the balance date. Therefore, Alfa Company should supplement the impairment recognized at the end of financial year N for the receivables customers with the amount it estimates that will no longer recover from Beta Company and that has not yet been reflected in the expenses.

The loss of Alfa Company because of recovering the receivable from Beta Company = $(1 - 20\%) \times 1,500,000 \text{ lei} = 1,200,000 \text{ lei}$.

The additional adjustment to be recognized by affecting the corresponding items in the balance sheet and profit and loss account for the financial year:

$N = 1,200,000 \text{ lei} - 2\% \times 1,500,000 \text{ lei} = 1,170,000 \text{ lei}$

1,170,000 lei 6814 = 491 1,170,000 lei

Operating expenses regarding the adjustments for the depreciation of current assets Adjustments for the depreciation of the receivables – customers

The notes to the financial statements for the financial year N will be corrected to reflect the new values as a result of event after the balance date. The public declaration of the bankruptcy (start of insolvency) of Beta Company at the end of January N +1 justified the existence of the unfavourable financial situation of this company ever since the end of financial year N, which led to a decrease in the balance of receivables costumers along with a corresponding decrease of earnings for the financial year N.

Extract from the notes to the financial statements on 31st of December N

The gross amount of the receivables – costumers = 4,350,000 lei

(-) Depreciation recognized at the end of financial year N = 1,401,500 lei

(=) The carrying amount of the receivables costumers at December 31, N = 4,350,000 lei - 1,401,500 lei = 4,118,500 lei (the amount recognized in the balance sheet for the receivables costumers reflecting the amount likely to be received).

From the total impairment of 1,401,500 lei, the amount of 1,200,000 lei corresponds to the receivables of the Beta company that are estimated not be recovered due to the starting of the insolvency and whether the judicial reorganization fails (the judiciary bankruptcy is declared).

Example 2. [7. Feleagă, (2005)]

A company closes its financial year on 31 December. In January N, all the assets of the company have burned in a fire. As the company was not insured, the activity cannot be continued. The Board has not yet approved the financial statements of the previous year.

The fire is an event that belongs to financial year N. However, given that business continuity is not ensured, it will affect the financial statements for the year N-1. In other words, the balance of the year N-1 will be drawn up in liquidation values.

Example 3. [8. H. van Greuning, (2007)]

A company closing the financial year at 31st of December has a long-term foreign currency debt that is not covered by an exchange contract. The mount in foreign currency was converted using the closing rate at 31st of December 20X4 and is shown in the accounting records in the local currency (ML) ML 2,000,000.

The local currency has depreciated significantly against the American dollar on 27th of February 20X5. At this time, the governing bodies have decided to cover the remaining exposure against the risk by concluding a forward foreign exchange contract, which limited the potential

liability at 6,000,000 ML. If this would apply to the balance date, it would result in a value of the company's debts to exceed the fair value of its assets.

The situation discussed is the definition of the events after the balance date and, especially those events that refer to the circumstances that occur after the balance date.

The loss of 4,000,000 ML appearing in 20X5 must be recognized into the profit and loss account of the financial year 20X5. In the financial statements for the financial year ending on 31st of December 20X4, no provision related to the respective loss cannot be created.

However, the company must consider whether the application of the principle of the continuity of the activity when preparing the financial statements is true. The date and frequency of the debt repayment should be considered.

The following information must be provided in a note to the financial statements for the financial year ending on 31st of December 20X4:

- the nature of the events;
- an estimation of the financial effect, in the present case, 4,000,000 ML.

Example 4. [9. Popa, (2007)]

Alpha Company obtains at the financial year N a net profit of 80,000 lei. The decision on the distribution of the profit is taken on January 24, N + 1, on the following destinations: 50,000 lei for dividends and 30,000 lei for other reserves.

Alpha Company authorises the separate financial statements for issue on February 24, N + 1.

As the decision on allocation of profits as dividends was taken after the balance date, Alfa Company would not be able to present the dividends payable as debts in the balance sheet from 31st of December N. Therefore, the equities at end of the financial year N does not decrease with the amount of the dividends proposed, after the balance date, to be distributed to shareholders. However, Alfa Company must disclose in the notes to the financial statements for the financial year N the amount of the dividends proposed to be paid out of that year's profit.

Conclusions

According to IAS 10 Events after the reporting period, if the entity receives after the reporting period, information about the conditions that existed at the end of the reporting period, it shall update disclosures that relate to these conditions, taking into account the new information.

In some cases, the entity needs to update the disclosures from its financial statements in order to reflect the information received at the end of the next reporting period, even if this information does not affect the amounts the company recognizes in its financial statements. For example, when after the reporting period, evidence about contingent liability that existed at the end of the reporting period become available. In addition to considering whether it should recognize or change a provision (IAS 37), the entity shall update the information that was presented regarding the contingent liability in the light of that evidence.

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