

ACCOUNTING GUIDELINE

GRAP 14

Events After The Reporting Date



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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Note that this document is not part of the GRAP standard. The GRAP takes precedence while this guideline is used mainly to provide further explanations on the concepts already in the GRAP.

Contents

1.	Introduction	4
2.	Scope	5
3.	Authorising the Financial Statements for Issue	5
3.1	Reporting date and date on which the financial statements are authorised for issue	5
3.2	Disclosure	6
4.	Adjusting Events After The Reporting Date	6
4.1	Disclosure	8
5.	Non-adjusting Events After The Reporting Date	8
5.1	Disclosure	9
6.	Going Concern	10
7.	Entity Specific Guidance	11
8.	Illustrative Examples	12
9.	Useful links and references	15





1. Introduction

This document provides guidance on when an entity should adjust its financial statements for events after the reporting date; the disclosures that an entity should provide about the reporting date and the date when the financial statements were authorised for issue, as well as events after the reporting date. The contents should be read in conjunction with GRAP 14.

For purposes of this guide, “entities” refer to the following bodies to which the standard of GRAP relate to, unless specifically stated otherwise:

- Public entities
- Constitutional institutions
- Municipalities and all other entities under their control
- Trading entities and government components applying the standards of GRAP
- Parliament and the provincial legislatures
- TVET and CET colleges

Explanation of images used in manual:

	Definition
	Take note
	Management process and decision making
	Example

2. Scope

GRAP 14 is applicable to all entities who prepare financial statements based on the accrual basis in accounting.



Note that the standard requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is no longer applicable.

3. Authorising the Financial Statements for Issue

3.1 Reporting date and date on which the financial statements are authorised for issue

To determine if an event is an event after reporting date, an entity needs to identify the reporting date and the date on which the financial statements are authorised for issue.



Reporting date means the date of the last day of the reporting period to which the financial statements relate, which is for:

- Departments, parliament, provincial legislatures, public entities and constitutional institutions: 31 March
- Municipalities and municipal entities: 30 June

Date of authorisation for issue is the date on which the financial statements are approved by management for issue to the executive authority or municipal council. The audit opinion is provided on those finalised financial statements.

Example: Date of authorising the financial statements

The accounting officer of the Entity DD approves the financial statements for the year ended 31 March 20X0 on 28 May 20X0 and submits the financial statements to the auditors for auditing.

The financial statements are approved by the accounting officer for issue to the executive authority on 30 July 20X0.

On 31 August 20X0, the accounting officer submits the annual report, including the financial statements and the audit report on those financial statements, to the executive authority for tabling in the National Assembly.

The executive authority tables the approved annual report to the National Assembly on 15 September 20X0.

The financial statements are authorised for issue on 30 July 20X0, as the audit opinion was provided on those financial statements.



It is management's responsibility to authorise the financial statements for issue. The process to prepare and authorise financial statements for issue will depend upon the management structure, statutory requirements relating to that entity and the procedures followed in preparing and finalising the financial statements.



Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

3.2 Disclosure

Entities are required to disclose the date when the financial statements are authorised for issue and who gave the authorisation.

4. Adjusting Events After The Reporting Date



Adjusting events after the reporting date are those events that provide evidence of conditions that existed at the reporting date.

Example: Adjusting events

The following are examples of events occurring after the reporting date, based on the information in the previous example above, that requires the adjustment of amount(s) already recognised or to recognise an amount that was not recognised previously in the financial statements:

- At reporting date, 31 March 20X0, the Entity DD raised a provision of R100,000 in respect of an outstanding court case. On 14 June 20X0, the court ruled that the Entity DD is liable to pay an amount of R150,000. Consequently, the Entity DD is required to upwardly adjust the provision recognised to an amount of R150,000, as the court ruling is an adjusting event (it provides evidence of a situation that existed at the reporting date). If only a contingent liability was raised at 31 March 20X0 due to the uncertainty about the outcome of the court case, a provision to the amount of R150,000 would have had to be raised once the court ruled. It would not be sufficient to simply disclose a contingent liability, as the court ruling provides additional evidence of a situation that already existed at the reporting date;

- The Entity DD received notification on 29 June 20X0 that a debtor with a carrying amount of R30,000 at reporting date was declared insolvent. This may be an indication that the debtor was already impaired at year-end. If that is the case, the debtor should be impaired. Trade receivables' carrying amount in the statement of financial position should be decreased accordingly;
- At reporting date, inventory should be carried at the lower of cost or net realisable value. The selling prices of inventory sold after the reporting date will provide evidence regarding the net realisable value of inventory at reporting date. If sales prices after the reporting date are lower than the carrying value of inventory at reporting date, this may be an indication that the carrying values of inventory will need to be written down to net realisable value;
- The Entity DD has a revenue sharing agreement with another institution in respect of which an obligation was raised to the amount of R500,000 at reporting date. However, the amount of the obligation may increase/decrease as further evidence becomes available after reporting date. All information obtained between the reporting date and the date where the financials are authorised (i.e. 30 July 20X0), should be taken into account when measuring the obligation as it provides additional evidence about an obligation that existed at the reporting date;
- If the Entity DD has a present, legal or constructive obligation at reporting date to pay performance bonuses to their staff members, a provision needs to be raised based on an estimated figure. This figure will only become final after the reporting date, when the exact figures would be available. Therefore, the further evidence obtained after the reporting date, relates to additional information of the obligation that existed at the reporting date and should therefore be taken into account when determining the measurement of the obligation; and
- A discovery of fraud or error in the Entity DD that may impair the fair presentation of the financial statements, between the reporting date and the date when the financial statements are authorised, is an adjusting event insofar as it relates to a condition that existed at the reporting date.



Important aspects to consider:

- Settlement of a court case – judgement in a court case given after year end is taken into account, not only in determining whether changes in measurements are required, but also in determining whether a provision should be recognised at the reporting date.
- Information that indicates impairment - post reporting date restructuring or discontinuance of operations as well as insolvency of a debtor(s) may not in themselves be adjusting events but may provide evidence of impairment at reporting date.
- Fraud, error and other regularities – such irregularities that are discovered after year-end are adjusting items. Prior period adjustments are required where these irregularities date back to more than one financial year. (Refer to GRAP 3).
- Updating disclosures – information received after the reporting date may necessitate the updating of disclosures made in the financial statements e.g. updating or disclosing new contingent liabilities.

4.1 Disclosure

When information is received after the reporting date about conditions existing at the reporting date, but before the financial statements are authorised for issue, disclosure should be made that relates to the new information.

5. Non-adjusting Events After The Reporting Date



Non-adjusting events after the reporting date are those events that are indicative of conditions that arose after the reporting date.

Example: Non-adjusting events

The following are examples, of events after the reporting date that are non-adjusting events, and which are required to be disclosed in the financial statements if they are material:

- The Entity DD owns a property with a market value of R1,000,000 at reporting date, 31 March 20X0. The market value of the property has declined steadily between May and July 20X0, when the property market experienced a decline. This will give no further evidence of the situation as on the reporting date and therefore is a non-adjusting event. The decline in the market value after the reporting date may need to be disclosed if it is material to the user;
- The Entity DD acquires or a major controlled entity after the reporting date, for example they acquire a business who manufactures military weapons on 20 May 20X0. This will be a non-adjusting event and due to the significance of the event, disclosure thereof should be made in the notes to the financial statements;
- The Entity DD announced on 20 April 20X0, that a major restructuring will take place. There will be no adjustment made to the financial statements, as this gives no further evidence of the situation that existed at the reporting date. This fact will, however, need to be disclosed in the notes to the financial statements;
- If the Entity DD has a foreign debtor on reporting date, that debtor needs to be translated to Rands at the spot rate (assume \$1=R12,92) on 31 March 20X0. If the exchange rate increases dramatically to \$1=R15,43 on 30 April 20X0, no adjustment is required;
- If the tax rate was changed to 27% on 15 May 20X0, whilst the tax rate was 28% on reporting date, no adjustment is needed;
- On 15 June 20X0, the Entity DD entered into an agreement with Armscor, where the Entity DD committed to purchase a large number of military equipment. This gives no further evidence of the situation as on the reporting date, therefore no adjustment is needed. As this is a significant commitment entered into, this needs to be disclosed in the notes to the financial statements; and

- On 20 May 20X0, a major supplier initiated a litigation claim against the Entity DD for breach of contract. The alleged contract breach took place on 10 April 20X0. Although no adjustment is needed in the financial statements, as the event did not exist at reporting date, the facts of the litigation claim need to be disclosed in the notes to the financial statements, as this may be significant to the users.



Important aspects to consider:

- Any restructuring commencing after the reporting date and before the approval of the financial statements should be disclosed;
- Financial commitments: if an entity enters into any significant commitments or contingent liabilities after year end, it must be disclosed in the financial statements as a non-adjusting event. Commitments may include:
 - capital commitments (to acquire PPE, intangible assets and for the development or acquisition of biological assets);
 - lease commitments (for both finance and non-cancellable operating leases); and
 - other financial commitments.

Refer to the accounting guideline on GRAP 19 for details on capital commitments and to the accounting guideline on GRAP 13 for details on lease commitments.

5.1 Disclosure

If non-adjusting events, that occurred after the reporting date, are material, it may influence the economic decisions of users taken on the basis of the financial statements and should therefore be disclosed in the notes to the financial statements.

6. Going Concern

The entity should not prepare its financial statements on the going concern basis if management determines after the reporting date that:

- there is an intention to liquidate the entity; or
- to cease operating or there is no alternative but to do so.

The going concern assumption needs to be considered by each entity individually. If an entity that forms part of a government department is no longer a going concern and the entity's activities are transferred to another entity, this will not have any effect on the government department itself.

Management needs to consider a wide range of factors when assessing whether the entity is a going concern. Factors will include the current and expected performance of the entity, any restructuring plans, likelihood of future government funding and any replacement funding.

In the case of entities that are budget-funded by government, going concern issues will generally only arise if the government announces that it intends to cease funding.

If the going concern assumption is no longer appropriate, this fact should be reflected in the financial statements. Judgement is required to determine whether a change in the carrying value of assets and liabilities is required and whether any additional liabilities will need to be disclosed.

GRAP 1 on *Presentation of Financial Statements* requires disclosure regarding the going concern basis, assumptions and uncertainties. Refer to the accounting guideline on GRAP 1 for detail.

7. Entity Specific Guidance

Entity-specific guidance has been included where appropriate to provide specific guidance on a subject that only relates to those types of entities.

Public entities and constitutional institutions

Dividends or similar distribution

A liability should not be recognised at the end of the reporting period in respect of dividends or similar distributions declared after the reporting date. However, disclosure of these dividends or similar distributions should be made.

8. Illustrative Examples

Example 1: Adjusting Event

On 10 April 20X1 A Public Entity's significant debtor was liquidated. At reporting date, 31 March 20X1, the carrying amount of trade receivables in the financial records of A Public Entity included an amount of R500,000 relating to this debtor. It is estimated that creditors will receive 50 cent in the Rand upon liquidation.

The conditions that led to the weakened financial position of the debtor already existed on 31 March 20X1, although the information was only received 10 days after the end of the reporting period. The financial statements will be authorised on 30 April 20X1. This should therefore be recognised in the financial statements for the period ended 31 March 20X1 as an adjusting event.

Extract from Notes to the financial statements

	2011
Events after the reporting date	R
<i>Insert the nature of the adjusting event.</i>	
The effect on the current period is as follows:	
Statement of Financial Position	
Trade receivables	(R250,000)
Statement of Financial Performance	
Expenses	R250,000

Example 2: Roll over funds

A Schedule 3A public entity's reporting date is 31 March 20X1. According to section 53(3) of the Public Finance Management Act, 1999 (PFMA), public entities may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained.

At 31 July 20X1, the public entity has requested, but has not obtained, approval for the retention of its surplus funds. As the prior approval is required, this provides evidence of a condition that existed at the reporting date and therefore the financial statements will have to be adjusted.

The entity will then have to evaluate the probability of the outflow of economic benefits or service potential in accordance with the criteria as set out in the accounting guideline on GRAP 19, to determine whether to disclose the amount as a provision or a contingent liability.

The following is an example of the required disclosure if it is determined to be a contingent liability:

Extract from Notes to the financial statements**Contingent liabilities*****Contingent liability – Accumulated surpluses***

In terms of Section 53(3) of the PFMA, a public entity may not accumulate surplus funds without approval from the National Treasury. Approval has been requested from the National Treasury to retain surpluses amounting to R8, 500,000; however, the entity is still awaiting approval. If the approval is not granted, the entity will be liable to repay the surpluses amounting to R8,500,000.

Example 3: Non-adjusting event

On 20 May 20X1, inventories to the value of R600,000 were destroyed by fire (assume the reporting date is 31 March 20X1). This is a non-adjusting event, as no condition existed at reporting date relating to the occurrence of the fire. If the loss is material, disclosure is required.

Extract from Notes to the financial statements**Events after the reporting date**

On 20 May 20X1 inventories to the value of R600,000 of the entity were destroyed by a fire.

Example 4: Non-adjusting event

An entity's reporting date is 30 June 20X0. The entity enters into a significant contract to purchase a new building for R10 million on 15 July 20X0. This is a non-adjusting event, as no conditions existed at the reporting date relating to the decision to purchase the building. The amount of purchase is material to the user and therefore appropriate disclosure may be required.

Extract from Notes to the financial statements**Events after the reporting date**

On 15 July 20X0 the entity entered into a purchase agreement to acquire a new building to the value of R10 million.



Note that even if there were no events after reporting date, a statement to that effect should still be disclosed, for example:

Extract from Notes to the financial statements**Events after the reporting period**

No events after the reporting date were identified by management that would affect the operations of the entity or the results of those operations significantly.

9. Useful links and references

Reference	Location of reference
Frequently Asked Questions (FAQs) on the Standards of GRAP	ASB website: http://www.asb.co.za/frequently-asked-questions/
IGRAP 9 on <i>Distributions of Non-cash Assets to Owners</i>	ASB website: http://www.asb.co.za/interpretations-approved-and-effective/
Guideline on The Application of Materiality to Financial Statements	ASB website: http://www.asb.co.za/guidelines/
Standard Chart of Accounts for Local Government (mSCOA)	National Treasury website: http://mfma.treasury.gov.za (mSCOA – Municipal Standard Chart of Accounts)
Illustrative Financial Statements for local government	National Treasury website: http://mfma.treasury.gov.za (mSCOA – Municipal Standard Chart of Accounts)