

**NEPAL ACCOUNTING STANDARDS ON
EVENTS AFTER THE BALANCE
SHEET DATE**

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Nepal Accounting Standard, 05 Events After the Balance Sheet date (NAS 05) is set out in paragraphs 1-24. All the paragraphs have equal authority. Paragraphs in **bold type italic** state the main principles. NAS 05 should be read in the context of its objective, the *Preface to Nepal Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. NAS 02 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to prescribe:

- (a) when an entity shall adjust its financial statements for events after the balance sheet date; and
- (b) the disclosures that an entity shall 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 shall 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 shall be applied in the accounting for, and disclosure of, events after the balance sheet date.***
2. This Standard applies to all companies including Public Sector Business Entities.

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 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 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 regulatory authority for approval. In such cases, the financial

statements are authorised for issue when the management authorises them for issue to regulatory authority.

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 NAS 12 *Provisions, Contingent Liabilities and Contingent Assets* 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 NAS 12.

- (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 existed at the balance sheet date on a trade receivable account and that the entity 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;

- (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 to make such payments as a result of events before that date (see NAS 14 *Employee Benefits*); and

- (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 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 (i.e. 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. Such dividends are disclosed in the notes in accordance with NAS 01 *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. NAS 01 *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 owner or others have the power to amend the financial statements after issuance, the entity shall disclose that fact.***
18. 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

19. ***If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, the entity shall update disclosures that relate to these 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 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 shall recognise or change a provision, 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 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 that would generally result in disclosure:

(a) a major business combination after the balance sheet date (NAS 21 *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, other disposal 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;

(f) major ordinary share transactions and potential ordinary share transactions after the balance sheet date (NAS 26 *Earning 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 NAS 26);

(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 NAS 09 *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.

Compliance with International Accounting Standards

23. Compliance with this NAS ensures compliance in all material respects with IAS 10 Events After the Balance Sheet Date.

Effective date

24. This Nepal Accounting Standard becomes operative for financial statements covering periods beginning on or after 01 Shrawan 2065 corresponding to 17 July 2008.