Chapter 26

EVENTS OCCURRING AFTER THE REPORTING PERIOD

1. Event Types

Now we are going to look at the effect of events which occur after the end of the reporting period but before the audit report has been signed. These events fall into two types.

- **An adjusting event** as its name might suggest, means that the accounts have to be adjusted in the light of what's happened. The rule is that adjustments are only put through the accounts if the event produces **evidence of conditions that existed** at the date of the statement of financial position, in other words at the balance sheet date.

  An example would be a major customer going into liquidation, let's say at the end of January, the year end being the end of December. That event tells us that the receivable at the end of December was probably bad and should have been written off or fully provided against then. It's very unlikely that the customer's financial position worsened so remarkably during January. What the liquidation tells us is that the customer was in the bad situation at the end of December and if only we had known that then the receivable would have been provided against.

- **A non-adjusting event** relates to conditions which **arose after the date of the statement of financial position**.

  A good example is the company's factory burning down, let's say in mid January. At the end of December the company's factory was perfectly healthy, it was standing, it was operating, it was a non-current then. It was only after the end of the year that it was destroyed. If the statement of financial position is telling us the position at the year end, then the factory would have to appear in non-current assets. It would be, of course, important to disclose in the notes that the factory was no more. This will be a good example of an emphasis of matter paragraph in the audit report.

2. Active and passive duty

Until the audit report is signed auditors have an active duty to look out for events that might tell them more about the financial statements. After signing the audit report, the auditors have a passive duty only. Occasionally events will occur after the accounts have been signed and issued and these come to the auditor's attention. Exceptionally it may be important for the auditors to alert the addressees of the audit report that something is wrong in the accounts and they will try to persuade the directors to re-isue corrected financial statements.

WHEN YOU FINISHED THIS CHAPTER YOU SHOULD ATTEMPT THE ONLINE F8 MCQ TEST