

JAN KELLGREN

IAS 10 Events after the Reporting Period Problematized – Some Questions Regarding the Standard’s (Read by its Letter) Understandability

Events after the reporting period is an interesting phenomenon, as they are both very common and can be tricky to address correctly. Yet, quite surprisingly, not much research has been carried out on how to interpret the rules regarding events after the reporting period. This article is written from a legal perspective, with the purpose of looking closely at the wording of the IAS 10, in order to discuss if, or to what extent, it is clear enough to (as far as possible) give the management of a business (or auditors, courts etc.) sufficient clarity on how to handle events after the reporting period – or if, and if so how, the rules are unclear. Some hints de lege ferenda (what improvements could be made in the standard?) are also given, with the purpose of making the IAS 10 clearer.

Keywords: events after the reporting period; post balance sheet events; legal interpretation; legal predictability; legal clarity; decisive moment

1 INTRODUCTION¹

It goes without saying that the accounting and the accounting rules (just as more or less every legal rule) must take aim at the situation on a given day, or sometimes a period. This day, the balance sheet day, is “*the decisive moment*” for each year’s accounting. However, the accounting is not finished

¹ Many thanks to Emil Vilsson Gustafsson (holding a master’s degree in Commercial and Business Law from Linköping University) for, while working as a research assistant within this project, gave a lot of excellent help on finishing this article. I am also grateful for comments on earlier drafts by Torbjörn Tagesson, Elif Härkönen, Stefan Schiller (all three at Linköping University), Arne Fagerström (University of Gävle), Eskil Henriksson (Swedish Tax Agency) and at academic seminars held in Uppsala, Linköping and Lund, but I am solely responsible for any remaining errors or omissions. This article is a developed and internationalized version of Chapter 2 in Kellgren, Tidsfrågor i skatterättstillämpningen, Om de avgörande tidpunkterna i redovisning och beskattning och om betydelsen av händelser därefter, Jure, 2016, that had its focus on Swedish accounting rules. The research has been generously financed by the Nordic Tax Research Council and the Torsten Söderberg Foundation.

at the first second of the new accounting year, so many important data are, or could be, gathered, sought after, or simply stumbled upon, after that day, but before the accounting is finalized. This situation makes it important to decide what relevance is to be given to information after the decisive moment and when completing last year's accounting, and how thoroughly a company should have to look for such information.

This is where the questions on the importance of, and the rules on, *events after the reporting period* comes in. The general rules on how events after the reporting period are to be handled in the accounting are found in IAS² 10 (Events after the Reporting Period), which is analyzed in this article. One example of what could be a (so-called adjusting) event after the reporting period states that the sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period.³

The purpose of the study is to *look closely at the wording of the IAS 10 from a legal perspective in order to search for ambiguities that make the understanding, interpretation and application of the IAS 10 problematic*. Some suggestions *de lege ferenda* are also made, with the purpose of clarifying the law.

This article is organized into the following sections: First of all, I analyse the literature concerning interpretation and application of the IAS 10 (Chapter 2). Then, after a description of the methodology used in the research (Chapter 2) and a brief presentation of the norms that are in focus in the following analysis (Chapter 3), the actual analysis is presented (Chapter 5), followed by some concluding remarks (Chapter 6).

2 FRAME OF REFERENCE AND RESEARCH METHODOLOGY

International business literature has produced a number of studies concerning interpretation and application of the international accounting standards to financial statements, some of which cover the aspects of events after the balance sheet date according to IAS 10. These studies focus on aspects of definition, recognition, measurement and mandatory disclosures on the topic.⁴ Such research is indeed relevant, but there is more to

² IAS is an abbreviation for International Accounting Standards.

³ IAS 10, paragraph 9.

⁴ See, for example, Epstein, Mirza & Walton, *Interpretation and Application of International Financial Reporting Standards*. John Wiley & Sons, Hoboken, 2006; Mirza, Holt, & Orrell, *International Financial Reporting Standards. Workbook and Guide*, John Wiley & Sons, Hoboken,

be done when it comes to looking for ambiguities in the actual text. In fact, the very wording of the IAS 10 has not yet been subject to a close enough analysis. The aim here is to make a contribution in filling this gap.

Research on accounting can be carried out in many ways.⁵ In most countries, it is correct to look at accounting as *an act of applying the law*, if “the law” is understood as both legislation and accounting standards. After all, accounting is, in most countries, ultimately based on accounting rules – and that is obviously the case when it comes to applying written standards, such as the IAS 10. Accordingly, financial statements might be reviewed, and accounting rules interpreted, by courts, or otherwise by legal expertise. In the light hereof, and of the purpose of the study, *the legal-dogmatic method* will be used.

Chynoweth is probably correct in saying that legal researchers have always struggled to explain the nature of their activities to colleagues in other disciplines.⁶ There is so much written and so much to say on the nature of legal science, and this is not the place to go deep into these complex matters. However, it should be said that the method used below is, basically, that of *traditional dogmatic legal science*. Yet, as Smits points out, legal dogmatics can have different purposes, such as descriptive, prescriptive and justificational.⁷ Therefore, it is necessary to describe the nature of the legal-dogmatic method used in this article.

In fact, the way the method is used below might seem unorthodox, not only from a business economy point of view but also from a legal-dogmatic perspective: The main purpose here is, as mentioned, to investigate where, and how, the text of the standard is unclear. Principally, thus, I am *looking for problems in the standard*, rather than starting with such problems.⁸ For

2007; and Mirza, Holt & Knorr, Practical Implementation Guide and Workbook for IFRS. John Wiley & Sons, Hoboken, 2011.

5 See, for example, Riahi-Belkaoui, Accounting Theory, Cengage Learning EMEA, 2004, Chapter 9 and Watts & Zimmerman, *Positive Accounting Theory*, Prentice-Hall Inc., 1986, Chapter 14.

6 Chynoweth, *Legal research; Advanced Research Methods in the Built Environment*, ed. Knight & Ruddock, p. 28.

7 Smits, What is Legal Doctrine? On the Aims and Methods of Legal-Dogmatic Research. Maastricht European Private Law Institute Working Paper No. 2015/06. As Smits points out, legal dogmatics can have different purposes, such as descriptive, prescriptive and justificational (See also Vaquero Á. N.; Five Models of Legal Science. *Revus, Journal for Constitutional Theory and Philosophy of Law*, 2017. p. 53–81).

8 Not surprising, the writing of this article started, though, with us finding a couple of ambiguities in the IAS 10 and its Swedish “close relative”, ch. 32 of BFNAR 2012:1 Årsredovisning och koncernredovisning (K3). These findings were supported after examining court praxis on

the probably most common framework of legal-dogmatic research, all or many interpretational problems are often previously known and merely provide a starting point, after which the research goes in to the next level of interpretation, etc. – aiming at producing legal interpretations in light of the entire system of legal sources and principles, thus finding the “*lege lata*” or “*sententia ferenda*”. In the context of this article, that would imply searching for the correct way to look at what the thus interpreted standard says about how different accounting questions regarding events after the reporting period are to be handled. That would mean going into supplementary sources and principles, the literature aiming at interpreting the IAS 10 (and other standards, as far as they are concerned with events after the reporting period) and perhaps also looking into accounting practice and, of course, weighing different arguments against each other.

That is not what is happening below, and for a reason. There is a strong case to be made for keeping *focus on the very standard, and what it says in itself*. This might be called *linguistic and logical legal-dogmatic analysis*. After all, the words of accounting standards are the starting point for finding the GAAP. Needless to say, reading the standard (or standards) could not supply all the answers needed for every question regarding events after the reporting period – instead, expertise is required in many cases. But if what the standard actually says is hard to understand on a principle level, or indeed misleading or perhaps merely does not seem to address crucial questions, that might be a significant problem. In that case, the standard might confuse its readers or even put them on the wrong track. Not much is to be said for such a standard – and if that is the case, this state of affairs must be discovered and properly described. This is especially true in jurisdictions where the accounting is of great importance not only for the accounting itself, but also for the taxation and/or company law – in such cases, these issues could be said to have a doubled, or tripled, relevance (accounting, taxation and company law). Therefore, I find analyzing the actual standard, and stopping there, not only “OK” or “interesting”, but also an important research method when it comes to accounting standards.⁹ Many other methods and

events after the reporting periods in the Swedish administrative courts, this praxis strongly indicated that these rules are hard to understand and handle correctly. After that, I started looking for ambiguities more systematically.

9 As Demski, Fellingham, Ijiri, and Sunder, Some Thoughts on the Intellectual Foundations of Accounting, *Accounting Horizons*: June 2002, Vol. 16, No. 2, pp. 166–167, points out, interdisciplinary research might contribute to the refining of the intellectual foundations of accounting.

perspectives might certainly also be of great importance and can provide other qualities, but this is the kind of legal dogmatics carried out in this article. It should also be said that there are so many interpretational problems in the IAS 10 that only describing some of the most interesting ones filled the pages of a normal article. In the light thereof, this article might be seen as a possible starting point for other kinds of research to follow.

In line with the above reasoning I have, probably unorthodoxly from an accounting perspective, but after consideration, avoided looking for, so to speak, the collected wisdom of the best accounting experts or in financial statements regarding “how things are done in accounting practice”.¹⁰ Instead, eyes has been kept on the very wording of the standard, looking for *the problems the common reader faces when trying to understand it*. After all, the standard could be said to be the “law” that is determinant for the accounting – and is to be understood and applied. Even if actual accounting and the knowledge of experienced accountants is fundamental, it all, at least from a legal point of view, starts with the rules, in more or less detail, telling the accountants and others how the accounting should be carried out. I have, thus, no basis for conclusions regarding whether accounting practices follow or deviate from the interpretations below of the standard.¹¹ It should be pointed out that some, perhaps even many, of the ambiguities, etc. that are discussed below are probably handled well in accounting practice, at least on an expert level.¹² However, as these rules are relevant for different kinds of readers, in highly different scenarios, ambiguities constitute a relevant problem regardless if experts handle them well.

In light of the above, it should be pointed out that the interpretations here expressed might not (and this is a deliberate choice) fully in accord-

10 See for example Barrett, The Extent of Disclosure in Annual Report of Large Companies in Seven Countries. The International Journal of Accounting, vol. 13, no. 2, pp. 1–25.; Giacosa, Disclosures in Events After the Balance Sheet Date: A Study of Selected Italian Companies, World Journal of Social Sciences Vol. 2. No. 5. August 2012 Special Issue. Pp. 262–285 and Kanu & Onuoha, The Disclosure of Events after the Reporting Period and the Financial Statements. Bankers’ Perspectives. IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 7, Issue 3. Ver. IV (May–Jun. 2016), PP 36–41.

11 It should be added that annual reports often do not seem to give particular clarity regarding the management’s considerations concerning the accounting principles regarding events after the reporting period.

12 As mentioned in footnote 8, court praxis on events after the reporting periods in the Swedish administrative courts indicates that these rules are hard to understand and handle correctly even for highly qualified tax experts.

ance with the requirements of IAS/IFRS, as interpreted by experts. The literature has indeed been used, but to look for unclarities in the standard, not in order to find arguments regarding the best way to interpret it. However, since there is very little, or no, legal research, preliminary works or court practice, etc. to fall back on, in this process, the legal dogmatic analysis might anyway, quite naturally, have had to be oriented towards the very standards – although in a more contextual way, looking into other standards, frameworks and principles.¹³ The bottom line is, however, that the standard is the “point of departure” for interpretation for accounting purposes and that ambiguities in the standard should never be considered irrelevant in this context, regardless if experts might have found a way to handle them.

The method could, thus, be described as very simple and straightforward; the standard is here read with the eyes of someone trying to find out what it, in itself, has to say about how to handle events after the reporting period – and then it is described what is hard to understand and why. This is a kind of linguistic and logical legal dogmatic analysis, but perhaps it would be more to the point to call it *critical interpretation*, as it is less oriented towards finding the best interpretation and more at looking for and describing ambiguities and other problems. It should, however, be underlined that the observation of an interpretational problem does not automatically imply criticism towards the regulatory body (here IASB¹⁴). Virtually all texts must be interpreted. In some cases, though, they could benefit from being clarified in themselves.

I have no ambition on claiming to have found all the problems that could be found within the IAS 10; rather, what is presented is a selection. Since this is an article in a tax law journal, the main focus lies on the question of the importance of events after the reporting period for the adjusting, or non-adjusting, of the values recognized in financial statements (adjusting and non-adjusting events), not on disclosures. It should be pointed out that interpretations of the IAS 10 made by the company and/or their auditor or other accounting experts will not necessarily be accepted by the tax authorities, as they might make other interpretations of the account-

¹³ Needless to say, we have looked for research regarding the correct way to interpret the IAS 10, as well as for case law, and we have used what we have found, but the fact remains that the analysis below is based mainly on the wording of the IAS 10.

¹⁴ IASB is an abbreviation for International Accounting Standards Board.

ing standards. This makes a lack of clarity in the accounting standards extra critical in countries where the link between accounting and taxation is strong. However, here focus is placed on problems understanding the actual standard, not on its interpretation in accounting practice or by tax authorities.

As the IFRS¹⁵/IAS standards are sometimes used as a model for national accounting standards, the analysis carried out here can also be of relevance for the understanding of national standards regarding events after the reporting period.¹⁶ As mentioned, in many jurisdictions accounting is relevant for both company law and income taxation, so events after the reporting period are also relevant outside the purely accounting perspective. It may be argued that even in cases where there is no direct connection between accounting and taxation, the rules regarding events after the reporting period may give some ideas on how to handle such events in income taxation – the situation in this respect in accounting and taxation is relatively similar.¹⁷ However, I do not go into these questions here but focus only on the IAS 10 itself. Please keep in mind, though, that these questions are of significant importance, far beyond IFRS accounting.

The general rules on how events after the reporting period are to be handled in the accounting are found in IAS 10 (Events after the Reporting Period), which is analysed in this article. There are also rules in other standards (for example, IAS 36 regarding impairment or IFRS 9 regarding the valuation of receivables) regarding events after the reporting period. The main standard on events after the reporting period is, however, the IAS 10. In some situations below, though, other standards are discussed. It would indeed be interesting to go into the FASB standard on events after the reporting period.¹⁸ The FASB rules regarding events after the reporting period are fairly close to the IAS 10,¹⁹ so it would be of interest to see whether some of the solutions in the FASB might be “better”. However, in this article, focus lies purely on the IFRS. That has made possible a decent overview of the IAS 10, which would have been hard comparing two standards on a detailed level, and the IFRS is, after all, more important from a Nordic perspective than the FASB.

¹⁵ IFRS is an abbreviation for International Financial Reporting Standards.

¹⁶ See, for example, footnote 1.

¹⁷ See Kellgren 2016 (see footnote 1 above).

¹⁸ See Accounting Standards Codification Topic 855, Subsequent Events.

¹⁹ US GAAP versus IFRS – The basics, EY, 2016.

3 THE MOST CENTRAL NORMS IN THE STANDARD

Accounting regarding events after the reporting period is regulated in IAS 10 (Events after the Reporting Period), which here will be presented briefly. For this article, the most central norms in IAS 10 say that

Events after the reporting period are those events, favorable and unfavorable, that occur between the statement of financial position date and the date when the financial statements are authorized for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the statement of financial position date (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the statement of financial position date (non-adjusting events after the reporting period).

and

An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

An important distinction is thus made between events that provide evidence of conditions that existed *on the balance sheet date* and events that indicate conditions *arisen after* the balance sheet date. It is also clarified that the term events after the reporting period are those events, favorable and unfavorable, that occur between the statement of financial position date and the date when the financial statements are authorized for issue, even if they occurred after the result, or other selected financial information has been announced.

The technique to take into account events after the balance sheet date, which are considered to provide evidence of conditions at the balance sheet date but which occur after the balance sheet date, but before the financial report is dismissed, is to adjust the amounts or to report unrecognized items (see Chapter 5.5). IAS 10 paragraph 9 and 11 give a number of examples of events after the balance sheet date that should, or should not, be taken into account.

4 THE DECISIVE MOMENT

Before going into events after the reporting period, it has to be ascertained what day is actually the day per which the accounting is prepared. This day is here referred to as “*the decisive moment*”.²⁰ The question of deciding upon the decisive moment has a more or less self-evident answer; it is the

²⁰ Mirza et al. 2011 (see footnote 4 above) call it “the pivotal date”.

closing day.²¹ In, for example, the IAS 1 (Presentation of Financial Statements) it is clearly expressed that a complete set of financial statements comprises “a statement of financial position as at the end of the period” (paragraph 10). From this rule, which permeates the entire accounting system, there seems to be only one single exception in the IAS 10.²²

As will be developed below, the fact that the decisive moment is the closing day does not mean that information thereafter is irrelevant for last year’s accounting. Whether, and if so, how, the rules regarding events after the reporting period change the decisive moment is the next question (dealt with after this chapter). However, it is important to distinguish between, on the one hand, *the day per which the legal situation and conditions in the company are to be assessed* (the decisive moment) and, on the other hand, *when and with what information said assessment should be carried out*.

It should be underlined, however, that in so far that transactions and other events and conditions are to be presented to comply with their economic significance, there is a danger of *exaggerating* the focus on the conditions per given day. One such example would be to presume that an entity, after an internal enterprise group acquisition, shortly before the closing date, holds the asset for only a couple of days, and then, shortly after the closing date, redivests the asset within the enterprise group would give a better picture of the financial situation not to be so formal that only the conditions on the closing day are taken into account, and, in this case perhaps, not to record the asset. If so, the conditions prior and after the closing date are of importance for evaluating the conditions on the closing date.²³ Such an “inspection” ought not to be seen as a deviation from the principle that it is the closing day that constitutes the determinant point in time. It

21 Mirza et al. 2011 (see footnote 4 above). This question tends to have a much more complex answer in income taxation, at least in Sweden (see Kellgren 2016 [see footnote 1 above]).

22 See IAS 10 paragraph 15 regarding the going concern assumption. If the going concern assumption is no longer appropriate, IAS 10 requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.

23 In a similar manner, it can be relevant to take into account the size of closely related historical warranty expenses when it is time to make calculations of reserves for future warranty costs. Similarly, there is reason to consider how the value of inventories has developed during the year, for example, the degree of fluctuation in value, in order to make well-founded assumptions regarding their value on the closing date. It should be at the value on the closing date, but history must be taken into account to accomplish that.

is instead a consequence of the application of the principle of relevantly accounting the conditions as per the closing date – be it that to conclude this it takes involving a reconciliation of the conditions before and after the decisive moment in time.

5 ANALYSIS

5.1 Do we really need the IAS 10?

Before going deeper into the actual standard, it is a natural starting point to ask whether this standard really has any significant legal, or other, importance, and, in that case, what kind of importance that would be. Looking at all the rules within it, it clearly appears to be important – and these *questions* indeed are. Events after the reporting period may be of importance, not only to the management's *own decision making* regarding how a particular way to report for the previous financial year is the right one, but also as *evidence*, for example, vis-à-vis the auditor (or in a tax process), that the (used or proposed) accounting method is actually correct. Needless to say, they are also highly important from an investor perspective. The point is rather that had it not been for the IAS 10 (or similar rules in other systems of accounting rules) it seems very plausible, that it would anyway be not only correct, but indeed also necessary, to have events after the reporting period that provide information and the situation at the balance day give cause to adjustment.²⁴

Be that as it may, it is hard to clarify what the law would say without some of the rules it actually has. Let us assume, however, that this is a correct assumption, in the sense that, more or less, all that is said in the IAS 10 would be the correct way to handle events after the reporting period, even without the actual standard. Is it perhaps, in fact, possible in this context that the rules regarding events after the reporting date are actually most likely to confuse? When rules exist, which do not add much, or anything, that is not already the case, there is a risk that the interpreter will read the rule so that it adds something of actual importance. This could mean that either the basic legal situation (without the “unnecessary rule”) or that the

24 Is is not discussed here whether accounting should be regulated or not (see Riahi-Belkaoui [see footnote 5] p. 136), rather that these particular questions might already be regulated but on a more general level. We have before us, thus, a potential example of (what Riahi-Belkaoui [see footnote 5] p. 146 would call) accounting standards overload.

special (“unnecessary”) rule regarding events after the reporting period are misunderstood.²⁵

However, rules that say something that would apply even without the actual rules are probably not very uncommon. Nor must they be seen as problematic, or only problematic, even if they are associated with certain risks. Firstly, these rules may clarify that the management cannot ignore information that appears after the balance sheet date. They are pedagogical in the sense that they give information regarding how to handle events after the reporting period. Secondly, they may clarify how long the company needs to keep the report open for additional information about the conditions at the balance sheet date. Both functions are relevant, although the same would probably be the case without the rules.

A third function of the IAS 10 is that the rules require that the management should report significant events in notes or management reports, even if they do not highlight the situation at the balance sheet date. It may be unclear whether, or to what extent, such a requirement can be read from general, underlying accounting principles.²⁶

The question “Do we really need the IAS 10?” could also be rephrased, as a question regarding if enough, more precise or more perfectly to each subject adopted and functionally integrated rules and guidance is, could or should be given in other standards (only). It might be argued that, for example, the rules regulating the valuation of receivables in IFRS 9, inventories in IAS 2 or calculation of impairment losses in IAS 36 are enough and that there is no real need for a general IAS 10. From a legal point of view, it is hard to say which policy is best – only a general IAS 10, specialized rules for each field or, as today, a hybrid solution. A general solution, like the IAS 10, can have its benefits when it comes to accounting issues not dealt with in standards, but perhaps such a general solution should best be integrated in the Conceptual Framework for Financial Reporting. It seems paramount finding out which solutions appear to be most feasible from a practical point of view, but that goes beyond the purpose of this paper.

The analysis above (5.1) might seem more appropriate as an ending of this kind of article, instead of being placed quite early, and indeed it might

²⁵ Compare Riahi-Belkaoui [see footnote 5] p. 147.

²⁶ It might be worth mentioning that in 2006 the Swedish Supreme Administrative Court found, in the income tax ruling RÅ 2006 ref. 63, that it is a general accounting principle to take into account events after the balance sheet date. This case is not based on IAS/IFRS, but on similar Swedish rules, yet it is still interesting and, in my view, supports the reasoning above.

have been used as such. However, It could be argued that the above findings, and the possibility to manage fairly well without the rules on events after the reporting period, to be of relevance also for the understanding and evaluation of these rules on a more detailed level. Henced it is placed here.

5.2 What is an “event”?

The term “event” is central in the standard. The meaning of the term is a key issue, since, according to the rules, certain *events* are to be considered. Therefore, its meaning has to be easily understood, at least on a principal level. However, it is here argued that the term, as used in the IAS 10, is ambiguous, and that a different, or fine-tuned, terminology ought to be considered.

IAS 10 (paragraph 9) provides the following examples of events after the reporting period that require adjustments (so-called adjusting events):

- (a) the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or 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 IAS 37.
- (b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, 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 that occurs after the reporting period date usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and
 - (ii) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.
- (c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
- (d) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date (see IAS 19 *Employee Benefits*).
- (e) the discovery of fraud or errors that show that the financial statements are incorrect.

The term is here ambiguous, mainly because “event” can relate both to (a) some form of *underlying event* (say a court order or a debtor’s bankruptcy) and (b) the management’s *coming to awareness* of such events and or other conditions. The underlying events (a) might certainly, in the eyes of many readers, be thought of as “events”. Which of these two (a or b) is actually the event, or are they both to be considered events? The standards terminology is not fully clear in this respect and it could be argued that this is not the kind of unclarity that in a positive way gives room for judgements and estimations, but rather one that confuses.

In most cases, the IAS 10 gives guidance on how events after the reporting period are to affect the reporting, which presupposes that they are *known*. Let us, for example, assume a company is (i) unable to pay its debt in December 20X1, (ii) files for bankruptcy in January 20X2 and (iii) the creditor observes the bankruptcy filing in February 20X2 (before the financial statements are approved by the board). In practice and in this context, the “event” is probably normally thought of as (iii) the discovery. Normally, thus, the IAS 10 seems to be aiming at events *discovered* by the management. This understanding of the “event” may, however, make it hard to find the best way to express the management’s obligation to actively look for relevant events after the reporting period (see 5.6) – and to clearly separate between these two aspects of the term event. Perhaps it may even give some readers the impression that all the IAS 10 requires is that events that are known are handled according to the standard – not that the management has to look actively for them.

Using the term events after the reporting period as aiming at discoveries, rather than at the underlying situation or underlying events, logically makes the discovery after the balance sheet date of an underlying event that occurred before the balance sheet day an event after the reporting period. This is, in my view, a perfectly correct accounting principle, but the terminology might seem confusing. It seems counterintuitive to call such discoveries events after the reporting period, since only the discovery of them takes place after the balance sheet date. That is especially the case if it is a discovery after the balance sheet date that actually confirms what the management had already assumed or if they had no preliminary view on the matter – in such cases, no “adjustments” are made (see 5.3).

The term *event* after the reporting period is thus unclear, seen isolated. This ambiguity may not play a crucial role, but after all, these are obligating regulations, requiring actions from of the management. Hence, it would

be better if the rules were more clearly worded. The regulation should probably have been written with a clearer and separate focus on two different aspects of events after the reporting period:

First of all, and primary, it is of relevance to take aim at what *has come to the management's attention* after the reporting period (before the period of the events after the reporting period expires). It may, in line with the above, be argued that the "age" of the underlying situation/event/events (if it/they existed on the balance sheet day or not, which rotting of a building must, but a customer's bankruptcy must not) is of limited importance. What counts in that perspective is only what has come to the management's attention – and how such (new information-) events are to be considered in the accounting.

Secondly, it is of relevance to, in some shape or form, address the need for the management *to look for* (information on) such underlying situations and events – and to sometimes let what has actually come to the management's attention after the balance sheet day give cause to look for even more information regarding the situation at the balance sheet day.

5.3 Confirm, provide evidence, indicative of ...

IAS 10 describes adjusting events as events that "confirm" (paragraph 9) or "provide evidence of" (Paragraph 3a) conditions that existed earlier. Here too, the wording of IAS 10 could lead the reader wrong. From a general linguistic perspective, "confirm" means that something makes certain or proves true. Synonyms of confirm are, for example, proving and expecting.²⁷ In my view, "provide evidence" leads the readers in, basically, the same direction; there is something expected or believed, that is to be proved by evidence.

However, what can be confirmed is actually only the assessments, feelings, premonitions and fears, etc. of a human being. Situations, as such, are not able to predict or value, nor take in a confirmation, so it cannot be the situation itself that something is supposed to be confirmed to – but to one person or more.²⁸ Nor does it seem to be normal use of language to say that an event itself can confirm something – confirmation can reasonably, in this context, only come from a person who makes the interpretation that an event after the reporting period contributes in a relevant way to giving

²⁷ See, for example, www.wordnik.com or www.collinsdictionary.com.

²⁸ However, a confirmation may regard, for example, an assessment (made by a person) regarding an event.

a picture, possibly confirmation, of the situation on the balance sheet date. What can be confirmed in these particular contexts is that the management's ideas regarding some kind of state of affairs, presumably in the form of that the management itself ascertains that they consider something they adopted on the balance sheet date, are subsequently confirmed by new information. One example is that the management believes that a development project that the company is working on will fulfil the requirements to trigger capitalization of the company's expenses for the project. This assumption can, later on, be confirmed by events after the reporting period. This (above) interpretation indicates that we have before us a *subjective requisite* (see definition in Chapter 5.7.) relating to knowledge and expectations of the management – ideas that are to be confirmed or evidence to be found. The expression “provide evidence” may, however, not speak in exactly the same direction as “confirming”, which in itself is slightly confusing. However, the general meaning of the wording of both these expressions is that the rules take aim at something that confirms some kind of belief of the management.

This problematic use of words gets relevant when an event after the reporting period *does not lead to a confirmation* of the management's premonitions. Perhaps the best example of such a situation is when an event after the reporting period gives the management a falsifying answer compared to their premonitions, for example, an unexpected fraud. Such an event does not constitute confirmatory information for the management. The same could be said of events indicating that something the management had believed or hoped for was not correct or showing something with a higher degree of precision, without the management previously having a more precise preliminary opinion on the matter. In none of these cases does it seem perfectly correct to speak of “confirmation”. Does this mean that such events after the reporting period that do not confirm beliefs of the management should not give rise to corrections of the accounts, in the same way as events after the reporting period confirming something are supposed to? The non-confirmatory events do not meet, at least not in linguistic terms, the necessary condition of the central rule, because they are not confirming. No, clearly this would not be a reasonable interpretation:

- 1) Not to take into account such (to the management) surprising events after the reporting period would be completely contrary to the purpose of IAS 10, as highly important information about the

situation at the balance sheet date would be of no relevance to the reporting – just because it did not show that something (one, many or every member of) the corporate management thought, later turned out to be correct and is therefore not “confirming”.

- 2) Such a method would also give various results to the accounts, depending on whether management was optimistic or pessimistic at the balance sheet date, which should reasonably be irrelevant in this context. It would also be a difficult question who (primarily within the corporate management) would have to have expected something in such a sense that an event after the balance sheet date would confirm something in a manner relevant to the report.
- 3) Such an interpretation conflicts with some of the examples given in the commentary to the relevant paragraph. Specifically, the last example, about discovery after the balance sheet date of fraud or errors that causes the financial report to be incorrect, clearly shows that the IAS 10 has been thought to include surprising events after the balance sheet date.
- 4) Furthermore, as discussed above (5.1), general accounting principles would probably have these events after the balance sheet date considered, irrespective of explicit accounting rules regarding them. It is as shown above, in the nature of the accounting work that events after the balance sheet date, which show the situation at the balance sheet date, are taken into consideration – and even the non-confirmatory events would thus be relevant to the final formulation of the accounts. It would be very strange if the rules on events after the reporting period counteracted such a natural part of general accounting principles.
- 5) Finally, a subjective requisite would be difficult to handle in practice and open up to objections about ignorance. This could give rise to evidence problems and opportunities for management to manipulate the reporting in an undesirable manner.

The key issue here, rather, is *if there is relevant information regarding the situation on the balance sheet date*. Whether this confirms someone's beliefs must be beside the point. For these reasons, “confirm” and “provide evidence of” seems to be to interpret as essentially different from what constitutes normal language use.

What would have been a better way to express what, arguably, is meant?

Perhaps the IAS 10 should rather simply have focused on *information showing the state of affairs on the balance sheet date* – regardless of whether this information confirmed (the management’s preliminary assessments was actually correct) or falsified (the management’s preliminary assessments was actually not correct) previous beliefs or provided first-time information (for example, a stock check carried out in January).

Another aspect on the wordings *evidence* and *confirm* is that it can be argued that something that “confirms” is to be seen as certain enough to be *decisive* (for the accounting question) but that “evidence” merely *speaks for* a certain accounting solution (but is not necessarily in itself strong enough to be crucial). It does not seem self-evident that the different situations in the IAS 10 where these respective expressions are used are in such a way different from each other that this difference is to be looked upon as intended or rational. There is a difference in the *requirements for evidence* between evidence and confirm, and from the wording of the standard, it is not obvious what is meant. If we add to this analysis the words used in 3b), namely, events that are *indicative* of conditions arisen after the statement of financial position date, things do not get clearer. Evidence and indicative imply different requirements for evidence, if this is the right interpretation. Is this difference actually intended, and why? Should not the requirement for evidence be neutral, so that the most probable interpretation of the state of affairs at the balance day is chosen as decisive for the report, or is there some higher reason for this possible difference?

5.4 At the balance sheet date or later?

The central question regarding events after the reporting period is which events should be regarded providing evidence of something that was the case on the balance sheet date (adjusting events) respectively that are indicative of conditions arisen after the reporting period (non-adjusting events). However, this interpretation seems hard to give much substance apart from the individual case, where, among other things, the actual circumstances and certainties or uncertainties are known. The examples provided in the doctrines regarding events after the reporting period, and in the actual standard, are written in the light of great knowledge and experience, and they show a high level of similarity.²⁹ This indicates that the dis-

29 See, for example, Christian et al., *IFRS Essentials*, Wiley 2013; Chaudhry, Fuller, Coetsee, Rands, Bakker, van der Merwe, Yeung, Varughese, McIlwaine, Balasubramanian, Wiley 2016:

cussion has reached the level of maturity where there is little more to say *on the general level*. That does not, however, mean that it is easy, in accounting practice, and for each event, to decide whether an event is to be seen as adjusting or not. In the light of this being the situation, here only provide some general reflections will be provided.

As previously mentioned, the IAS 10 (Paragraph 9) provides examples of adjusting events after the reporting period, for example the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period or the discovery of fraud or errors that show that the financial statements are incorrect. There are also examples of non-adjusting events (Paragraph 11), for example, a decline in market value of investments after the end of the reporting period. According to the IAS 10, the decline in market value does not normally relate to the condition of the investments at the date of the reporting period but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognized in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under Paragraph 21.

As Picker et al. points out, it is not altogether easy to tell why, according to Paragraph 11, a decline in the market value of investments between the end of the reporting period and the date when the financial statements are authorized for issue are considered not normally relating to the condition of the investments at the date of the reporting period, whereas, according to 9b (i), the bankruptcy of a customer that occurs after the reporting period date is regarded to usually confirm that a loss existed at the end of the reporting period on a trade receivable, and in 9b (ii) the sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period.³⁰ The different solutions in these examples constitutes a good example of how hard it can be, drawing the line between what should be looked at as adjusting and non-adjusting events, respectively. Although more guidance is often welcome, I find no cause to criticize the IAS 10 in this area – the basic principle is, and must

Interpretation and Application of International Financial Reporting Standards. Wiley 2016. and Mirza et al. 2007.

30 Picker, Clark, Dunn, Kolitz, Livne, Loftus, van der Tas, Applying IFRS Standards, Wiley 2016 p. 474.

be, fairly easy to express, but the actual application in the individual case is in some cases inevitably hard.

Some non-adjusting events after the reporting period are considered so material for economic decisions based on the financial statements that (according to Paragraph 21) an entity shall disclose them. Paragraph 22 gives a number of examples of such events, for example regarding plans to discontinue an operation. These rules, and these events, do not only oblige the entity to make certain disclosures; they also help us understand which kind of events are considered as adjusting or non-adjusting. It might also be argued that *some* of these examples can provide information on what *should actually be considered* to, but in a *limited sense*, affect last year's accounting – namely, to the extent that they provide information about the situation on the balance sheet date. This may seem counterintuitive, but please follow me through two examples. First, let us say a company sells some unlisted shares after the reporting period. This is clearly a non-adjusting event, in itself. However, the profit or loss by the sale (granted that it was at market price) could very well in some cases be considered to pertain relevant information of the value of the unlisted shares on the date of the reporting period.³¹ A second example is that if an expropriation of the company's assets completes after the closing date it could, in some cases, be considered to confirm concerns the management had at the balance sheet date that an expropriation would take place. Hence, some non-adjusting events after the reporting period should probably be taken into account, in this limited sense, even apart from the demands in Paragraphs 21–22.

It is clearly not always easy to draw the line between adjusting and non-adjusting events. An example of a situation that could be difficult is if a debtor is neglecting payments during the period of events after the reporting period and it must, therefore be determined whether the debtor's difficulties, already on the balance sheet day, were so significant that the value of the claim should be adjusted for the previous year, or if the economic difficulties have arisen after the balance sheet date. KPMG's Practical Guide To International Financial Reporting Standards refers to this process as “identifying the key event”, which seems to be an appropriate

31 See also, for example, Davies, Patterson and Wilson: UK GAAP: Generally Accepted Accounting Practice in the United Kingdom, Macmillan, 1997, p. 1399.

terminology.³² Anyway, this is a derivation that can be difficult to determine, both to gain access to relevant information on the matter (it is, after all, non-official information regarding another company) and in itself – if already at the balance sheet date, prevailing conditions shall be deemed to have been sufficiently unfavorable to justify a write-down of receivables on account of events after the balance sheet date.³³

The conclusion seems to be that the principles for separating adjusting events from non-adjusting, are, in themselves, relatively clear, but that this demarcation can be difficult at many times in the actual application. This dilemma has in fact a philosophical aspect, since the question of what constitutes an actual condition (albeit unknown to the management at the balance sheet date) and what is merely more or less clear prerequisites of a condition that will occur in the near future, in many cases, falls back on the view of, and the knowledge of, the very relationship between cause and effect.

In the light of these difficulties, transparency in accounting regarding which assumptions are made and which facts are used could be necessary (or highly helpful), at least in hard cases in questions of great economic importance.

5.5 To “adjust the amounts” and “recognize items/.../ not previously recognized”

Events that occur after the decisive moment (but before the date when the financial statements are authorized for issue) that provide evidence of conditions that existed at the statement of financial position date (adjusting events) shall be taken into consideration by adjusting the amounts, or by recognizing items not previously recognized (IAS 10, 10.9). Accordingly, events after the reporting period may cause changes in the accounting, compared to what the management had reason to assume at the balance sheet date. The term “adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized” is however problematic and could lead to misunderstandings.

The first problem regards the fact that events that occur after the deci-

32 KPMG's Practical Guide To International Financial Reporting Standards, 15th Edition, Sweet & Maxwell 2018 pp. 407–408.

33 One possibility that must be considered is, of course, also to date a part of the decline in value to the previous year and to observe the remaining decline in value in the accounts for next year.

sive moment that provide evidence of conditions that existed at the statement of financial position date mostly do not give any cause whatsoever to adjustments or to recognizing items not previously recognized – simply because they “confirm” what would have been assumed, had the accounting been finalized at the balance sheet day. Yet, according to the wording of Paragraph 9, they are to be taken into consideration by adjusting the amounts, or by recognizing items not previously recognized. This appears to be wrong, though, because that would mean adjusting something that is already correct, thus probably – or at least plausibly – making it incorrect. This interpretation is reasonably not intended, but in my view it follows by the wording of the standard (which in that case should not be followed). In any event, the wording is confusing in this respect and could have been chosen better.

The second problem regards the “or to recognize items that were not previously recognized”-part. The problem here is that events after the balance day may give cause not only to report previously not recognized items, but also to remove (previously recognized) items, for example an asset or a debt. Reasonably, the standard should be interpreted as to include also such effects, but this interpretation does not follow from the wording, it may be argued. It is hard to find a good reason to treat removal of items differently than additions – basically, the same reasons apply to both. Although the terminology should be seen as exemplifying, the standard could be clearer on this point.³⁴

The third problem is that the term “adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized” gives the impression that there should *exist a preliminary* accounting or judgement to adjust. That is far from always the case. Such a preliminary accounting can, but does not need to, exist. This makes the wording of the standard confusing. The correct interpretation of this regulation appears, however, to be that relevant information from the post-reporting period should be taken into account when preparing the accounts – regardless of what, if anything, was assumed before the event after reporting period came to the attention of the management. That implies that the “preliminary accounting or judgment” perhaps should be understood

³⁴ The fact that Paragraph 3 covers both favourable and unfavorable events is another question, since both of these could give cause for removals as well as additions. I thus argue that the IAS 10 is unclear when it comes to additions.

as some kind of *hypothetical* estimate, that might have been done, and if so, would be *based on the information available at the balance sheet date*. The current wording does not help the reader of the standard.

A both simpler and clearer way to express the intent of the standard would be to simply state that the report should be based on relevant information regarding the situation at the balance day from within the period for events after the reporting period, and perhaps give one or two examples of what kind of adjustments that could be required.

5.6 “Consider” vs. “seek, find and consider” – How extensive is the requirement to gather information?

Sometimes, events after the closing day provide information on the situation at the closing day, and should, therefore, be taken into account as an adjusting event. It is, however, in practice inevitable that some information from the time after the decisive moment will be overlooked, which, had it come to the management’s knowledge, should have affected the report. Full, or even sufficient, information with regard to events after the reporting period may sometimes be hard to obtain. For example, it can be very difficult to determine, with certainty, the economic potential of a brand or a product under development, and this value can also vary quickly and with a wide variety of factors. Such an analysis may require – or merely be improved by – complex investigations of various facts and conditions, perhaps covering the situation in several important markets. Hence, we can conclude that, in practice, it will not always be possible for reports to be prepared in the light of exactly *all* such possible post balance date information, had it been known, would have affected the accounting.

The question is to what extent, or in which cases, it is acceptable not to gather relevant information on events after the reporting period. If there is a requirement to take into consideration only information that has actually been found, or happened to have been found, but no requirement to actually look for such information, a requirement to report events after the reporting period would be relatively toothless – and the accounting easy to manipulate. The wording of IAS 10 demands that the corporate management take into account known events that have occurred after the reporting period. For such a demand to fulfil its purpose, the regulation must be interpreted to also require the management to seriously gather information after the reporting period. Here, the situation for events after the reporting period is the same as in many other accounting issues: that there

is a requirement of both knowledge of accounting rules (“the law”) and of *the situation* in the individual case (at least to the extent that they are relevant). From this background, how much information the firm is required to obtain, and what kind of information, are highly relevant questions.

The IAS 10 does not specify what (or how much) the management needs to know (or reciprocally, what the auditor must demand³⁵). Neither does it give a clear picture of the importance of the fact that the audit is normally finalized before the period for events after the reporting period is over. However, it must be concluded that accounting must be based on relevant information. It is the responsibility of the management to ensure that the necessary information is gathered. Accounting based on facts and the actual gathering of information must be regarded as presupposing and requiring one another. At the same time, the degree of precision regarding the need to gather information is often very low in accounting rules – in the rules on events after the reporting period, as well as in other rules. Instead, in practice, the level of information gathering is determined on a very practical level of application of the law: by companies, auditors and perhaps courts and the tax authorities.

Needless to say, accounting standards are not usually based on strictly determined amounts of information that have to be obtained, but leaves a degree of responsibility to the management when preparing the accounting. It is, though, required that it is *described in the report* what assumptions, etc., the report is based on. If the accounting is not based upon facts that would have been possible and relevant to have gathered (but not unacceptable to not find – let us say market conditions in several countries), this should be mentioned in the report. However, this does not mean that the level of information gathering can be *substantially reduced* simply by stating that certain information has not been sought after! On the contrary, there is a requirement to provide serious evidence for the assessments that the accounting is based upon. Otherwise, the value of accounting would decrease radically and the rules on events after the reporting period would fail to fulfil their purpose. However, it can be argued that there should be *some* level of discretion regarding the level of information gathering –

35 For an older article regarding the auditors’ responsibilities in regarding events after the reporting period, see Stokes and Sullivan, Auditors’ Responsibilities for Events Arising After Balance Date, ABACUS, Vol. 24, No. 2. 1988.

given that a decent level of transparency is catered through a description of the limitations regarding the facts on which the assessments are made.

Overall, the amount of information that has to be gathered seems to be a question of weighing the costs of finding information against the need for relevant financial information. In this balancing act, the materiality principle is of importance. This balancing act is difficult to make concrete in abstract legal terms, but must, to a significant degree, be handled in accounting practice. Generally speaking, in a specific circumstance, determining if a legally acceptable standard of care has been met should be of importance whether or not the accounting is conducted in conformity with practices accepted as normal by other members of the profession, in similar circumstances.³⁶ There is, though, still need for interpreting the standard, its letter and its fundamental principles. The scope of the requirement should be dependent on several factors. Here, some such factors will be commented upon.

First of all, it must be said that other standards may give guidance regarding this question. This goes for rules on events after the reporting period in other standards (they do not say much either, but could have, within their specific field) but also for the basic principles on accounting: events after the reporting period are far from unique in the sense that they concern how much information a statement must be based. IAS 1.15 is relevant here; it stipulates that “financial statements shall present fairly the financial position, financial performance...”. This is arguably not the case if the firm has spent very limited resources on gathering information. There will also be room and need for a company policy.³⁷ However, we are now looking at the IAS 10, discussing if it in itself gives sufficient guidance. As argued below, there are also specific aspects regarding the gathering of information when it comes to events after the reporting period. These will not be addressed very well in general rules and principles and would, therefore, benefit from more guidance in the IAS 10.

One highly important factor in the examination of how much information the management is required to gather is *what requirements the applicable accounting rule* (apart from the rule on events after the reporting period) *sets*, in each case. For example, if development expenditures are not capitalized, there is no need for a valuation of these after the re-

³⁶ See Stokes and Sullivan (see footnote 35) 1988.

³⁷ Regarding accounting policies, see Wiley 2016, Chapter 7.

porting period – at least not to properly value such items in the balance sheet. However, if development expenditures are capitalized, there is indeed a need to audit their value after the reporting period. In some cases, the management can also influence the requirement regarding the level of information gathering by *choosing accounting methods* that reduce the need to look for events after the reporting period or by accelerating the work on the financial statements so that the period between the end of the reporting period and the signature of the accounting, that must be open for events after the reporting period, is minimized. The need to spend resources on investigating events after the reporting period is also reduced if the report is finished rapidly, closely after the end of the reporting period. To some extent, that is also a matter of choice.

The requirement regarding the level of gathering information on events after the reporting period does not seem to coincide with the requirement for the management to take into account what they actually know. Though not reflected in the IAS 10, there is probably a *gap* between these two requirements. There could probably be events after the reporting period, which the management do not *have to* be aware of in order to establish an accounting that complies with good accounting practice, but which, if the management *are* aware of them, *must* be considered as (adjusting-) events after the reporting period. In that case, it would not be “wrong” not to have found them, but “wrong” not to consider them, had they known about them. This could, for example, be the case with difficult-to-obtain foreign information, which, however, are of significance for the value at the balance sheet date of a company asset. It could, in such cases, not be demanded that every single possible piece of information on events after the reporting period must be found, but still that a serious (but proportional) investigation is carried out.

In one way, the closer it gets to the signing of the report, the more difficult it gets to meet the requirements of gathering new information about events after the reporting period and updating the preliminary reporting due to such events. At the end of the accounting work, there is, gradually, less and less time to investigate new events and gather information and to make the necessary adjustment in the report – and it must be possible to complete the report without having to constantly seek new information again and correct the accounting, again and again. This applies, of course, especially if the company’s accounts require large amounts of worldwide information and analysis.

The question is, in this context, whether the rules on events after the reporting period should be interpreted so that such difficulties are considered gradually, thus reducing the requirement to seek and take into account events after the balance sheet date the closer the last signing date comes? First of all, it would be very *unpractical* with such heavy demands so close to finishing the report. It should also be said that the further along after the balance sheet date, the less *probable* it is that new information should be interpreted as showing a circumstance existing already at the balance sheet day. With time, there ought, in many cases, to occur a substantial “saturation”, where most emerging circumstances are to be considered indicating something that is to be taken into account only in the subsequent year’s financial statement. However, this does not avert the requirement to, late in the accounting procedures, seek and take into consideration events after the closing day which in some cases can be (and maybe even should be) fairly burdensome,³⁸ and the IAS 10 does not indicate any such nuances of the requirements regarding the level of information gathering. I do not argue for change in the IAS 10 here, or for the best way to interpret it regarding these demands. It should, however, be noted that this important question (that is specific for events after the reporting period) is not addressed.

5.7 Objective requisites and subjective requisites

5.7.1 Introduction and the “*intentions stay what they were, but insights are updated*”-principle

In this (5.7) section, it will be discussed how the rules regarding events after the reporting period relate to what lawyers refer to as subjective requisites and objective requisites in other accounting rules. It is argued that the standard is unclear but should be interpreted as stating a principle, when it comes to a subsequent event, that “*intentions stay what they were, but insights are updated*”, and (and but) that this principle may lead to coherence problems within the IFRS accounting system, thus affecting the clarity of the same.

Subjective requisites in rules are requisites that directly relate to some-

38 This is particularly applicable for entities that have a large number of posts which have an estimation that, to a high degree, relies on external analysis, and where the financial accounts are to be delivered at such an early point that the just mentioned maturity has only occurred to a mild degree.

one's mind (or, as below, the intensions of the management): his knowledge, beliefs, intentions, expectations, how he interpreted a situation etc., whereas objective requisites relate to facts and circumstances, etc., outside the subjective sphere which is in focus in subjective requisites. A simplified example from outside the accounting world would be that in order to commit a murder, you must not only have caused a death (objective requisite) but also have had that intention (subjective requisite). Without this intention, a crime may still have been committed (for example, involuntary manslaughter), but not a murder. There may be a significant level of judgements and estimations, perhaps even discretion, involved in the application of certain objective requisites (for example, when estimating market values), but that is on the interpreter's side, whereas the requisite in itself, in principle, relates to circumstances in a world outside of one single person's mind.

Events after the reporting period are to be taken into account if, and insofar as, they shed light on conditions on the balance sheet date. Thus, if, for example, events after the reporting period can shed new light on the conditions regarding the value of a machine at the closing date, it is precisely the conditions on the closing date that are decisive. New information can, obviously, lead to an update of this value, but will not change the decisive moment. The value of a machine is *an objective requisite*, in the sense that it is not, in principle, a question of intention or insight: the machine has its value, albeit that value might partly depend on its use in each company. The fact that, for example, the valuation of an asset often cannot be carried out only based on objective data, but requires at least some level of personal discretion, does not change that. The rule that events after the reporting period are to be taken into account if, and insofar as, they shed light on conditions on the balance sheet date also implies, logically, that if a management team had an intention on the balance sheet date, and this intention is of relevance for an accounting question, this very intention should be determining. Neither the management's intentions later on, nor their hypothetical intentions at the balance sheet day, had they then known what later came to their knowledge due to events after the reporting period, is of relevance in this context.

To the extent the management's intentions are conclusive for the accounting (see example below), that is, *a subjective requisite*, it is, likewise, the situation on the closing date that is subject to the accounting statement. Intentions on the balance day should, thus, not be updated – that would be a deviation from the principle of the precedence of the situation at the de-

cisive moment. This interpretation might be slightly controversial (I have not seen this question addressed) but it is supported by the wording of IAS 10, as this standard focuses only on information and knowledge, but regarding the factual situation at the balance sheet day. Another problem with another interpretation is how could the management's hypothetical intentions at the balance sheet day, had they then known what later came to their knowledge through an event after the reporting period, really be determined? So, the management's intentions appear to stay the way they were, regardless of new information.³⁹

Insights, estimations, information and knowledge are quite other things, though. Here, the principle of the IAS 10 is that information after the reporting period, about conditions that existed at the end of the reporting period, shall lead to updates. So here, but only here, what happens after the reporting period is of relevance. It may not always be altogether easy to draw the line between insights, estimations (that can be updated) and intentions (which are not to be updated) – not least since insights so subtly change into intentions. However, it certainly appears to be the principle that “intentions stay what they were, but insights are updated”. So, let us now make the above said the point of departure for the next step in the analysis. What happens when objective and subjective requisites are combined in events after the reporting period scenarios?

5.7.2 Objective and Subjective Requisites in Combination

It will here be argued that when objective and subjective requisites are combined in events after the reporting period scenarios, peculiar effects could be perceived that would probably also be surprising for a reader trying to understand the IFRS. Below, this will be illustrated with a hypothetical example. How frequent, and how problematic, these problems are, is however, is not discussed. The only aim is to illustrate the nature of the problem.

According to IAS 38, Paragraph 57 (see details below), development costs are capitalized after technical and commercial feasibility of the asset for sale or use have been established, and from that day. This means that the entity must intend, and be able to, complete the intangible asset and

³⁹ The case that new information is found, regarding the management's actual intentions at the balance sheet day is not here discussed. It is thus assumed that it is well known by the management what its intentions were, albeit that might not always be the case.

either use it or sell it and be able to demonstrate how it will generate future economic benefits.

57. An intangible asset arising from development (or from the development phase of an internal project) shall be recognized/capitalized if, and only if, an entity can demonstrate all of the following:

- (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) Its intention to complete the intangible asset and use or sell it.
- (c) Its ability to use or sell the intangible asset.
- (d) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

This rule contains both objective requisites and a subjective requisite. The subjective requisite lies in the requirement (b) for the entity to “intend [...] to complete the intangible asset”. The other requisites are objective, and here I will focus on (d) that the firm must be able to demonstrate how the intangible asset will generate probable future economic benefits. There is nothing here, neither in the IAS 38 nor in the IAS 10, to suggest that the decisive moment (for any of the requisites) would be placed at any other moment than the balance sheet date.

Let us look at this hypothetical example, where Paragraph 57 of the IAS 38 is combined with IAS 10: Assume that an entity, First Inc., during Year 1 started and pursued two partly competing development projects, X and Y, which during most of Year 1 were estimated to be finalized during Year 2. Both these projects have the purpose of accomplishing rapid and high-quality photo scanning. The expenditure attributable to each of these intangibles during its development (Year 1) was 5 MEUR each. At the closing date of Year 1, the management team has decided to pursue the development of Project X, but discontinue Project Y. The reason for this decision was the management’s assessment that Project X would generate more revenue than Project Y. The assessment on the closing day was for Project X to generate up to 15 MEUR in revenue, and the decision is thus to complete the project. The 5 MEUR that have been spent on Project X is

therefore (preliminary) capitalized, in accordance with the prerequisites stated above (that the management team deem are fulfilled, before events presented after the closing day – please accept that the example is not developed more in detail, regarding other aspects of IAS 38⁴⁰).

Come early spring, it turns out that a competing foreign entity, Second Inc., has made a technical breakthrough just before the end of last year. This breakthrough is expected to, within short, result in a clearly better product than the product First Inc. has planned to (be able to) prepare on the basis of Project X. Project X is thus not expected to generate any significant future economic benefit, and it is therefore ended. In accordance with rules regarding events after the reporting period, this information must (and this should be a clear case) taken into account, and the 5 MEUR development cost for this project is thus not capitalized.

Facing this event after the reporting period, the management team of First Inc. chooses to discontinue Project X, on account of it not being profitable. The plan is instead now changed, to resume Project Y, on account of it showing more potential than before, due to other events after the closing date. Information obtained after the closing date shows that Project Y, after being finalized (which is presumed to occur during Year 2), will be able to yield approximately 9 MEUR. Project Y is now far more promising than expected, though. However, on the closing day, it was not the entity's intention to finish this project. If we accept the above-presented (5.7.1) "intentions stay what they were, but insights are updated"-principle, the entity's intention to finish this project is not changed by the subsequently changed plan of the management team (subjective requisite).

If these interpretations of IAS 10 and 38 are correct, events after the reporting period run the risk of making the accounting *misleading*, in the sense that different parts of the accounting rules function differently in relation to events after the reporting period. This seems to, at least occasionally, give rise to incoherent accounting, in the sense that it is *based on factors* (intentions versus more objective requisites) *from various points in time*.

I have no intention of estimating the importance of this problem, but if it was to be addressed in future IFRSs, there are a couple of things to say: First of all, for reasons given above, it would seem odd to change either

40 Note, for example, that capitalization is possible only from the day when all the conditions in IAS 38.57 are met, and that expenditures on the project are recognized as a cost until that date.

part of the “intentions stay what they were, but insights are updated”-principle. Therefore, the best solution, if any, might be to change in other IFRSs so that they do not mix objective and subjective requisites, or to find other solutions for each such situation (perhaps within each of the IFRSs there this lack of incoherence would be seen as a problem).

It might be argued that in cases such as this, it would be more reasonable to consider events after the reporting period regarding both subjective and objective requisites. It is hard to see, though, that such an interpretation would be in line with the wording of the IAS 10, and the principles it is based upon. In certain cases, however, there might be room to argue that Project X and Project Y make *two parts of the same development activity* and that the intention simply was to complete at least one such project. That way, capitalization might still be allowed, in spite of the problems discussed above. Another option to reach a different outcome is to argue that the examined method of accounting fails to give a substance over form/*true and fair* view. It could thus well be argued that in this case another way of accounting would provide a more accurate picture of the situation in the company – although that is not what follows from the wording of the rules. However, here, that line of reasoning is not developed.⁴¹ A purely practical remark is that, in many cases, it would be very arduous for an auditor to refute a management team’s claims regarding their own intentions – should they simply base the company’s accounting in this question *on a lie* ...

The problem that has been illustrated here is presumably relatively unusual. It could, however, probably be relevant in other contexts than development expenses, namely, at least in some cases, where both subjective and objective requisites are relevant and the company has alternative strategies that change on behalf of events after the reporting period. This possibility would, however, have to be better examined, but on a general level, it appears to be relevant.

6 CONCLUSIONS AND FINAL REMARKS

The IAS 10 appears to be built upon *a clear and cohesive view of a distinct overall objective*: namely, to focus on the situation on the date of the closing of the reporting period – with the exception of the management team’s level of knowledge at that time, which is to be updated on account of events

⁴¹ See, for example, Johansson, Substance Over Form – en redovisningsrättslig studie. Jure, 2010, who however does not go into details on events after the reporting period.

after the reporting period. These updates can give rise to adjustments of previously made, more preliminary, estimations, thus providing for a more accurate financial report. The rules on events after the reporting period might be seen as redundant, but have a clarifying function. The fact that there is a level of legal uncertainty involved, in the sense that it sometimes is tricky to determine which events after the reporting period that provide evidence of conditions that existed at the balance sheet date and which events are only indicative of conditions that arose later date does not change this evaluation.

There are, however, different kinds of ambiguity in rules. One is that it simply is hard to tell *if the facts are such that a basically clear, but (perhaps inevitably) somewhat abstract, norm is applicable or not*, for example if two or more contracts that have been closed at approximately the same time, with the same customer (or his closely related parties), are to be accounted for as if they were a single contract. Another example of that kind of legal uncertainty is that just mentioned; that it can be tricky to determine which events are adjusting and which are not. Let us call this kind of uncertainty “*borderline uncertainty*”, to reflect that the uncertainty regards the drawing of a line between the cases where the (clear) norm is applicable and those where it is not. Then there is the kind of legal uncertainty that comes from *the rules being vague in their bearing principles*, so that it is unclear how to actually understand the rule, even apart from the fact that there may be a borderline uncertainty involved as well. Let us call this kind of uncertainty “*principle uncertainty*”, to reflect that the uncertainty regards the drawing of a line between the (clear) norm being applicable or not.⁴² There is here not only borderline uncertainty, but also *principle uncertainty*, in the norms regarding events after the reporting period, resulting in uncertainty, and risk of misunderstandings, and increased costs – even if it is uncertain whether this ambiguity also gives rise to actual, or perceived, problems in accounting practice. As said in the above, the overall objective of the IAS 10 seems clear, but there are, as shown in Chapter 5, *numerous ambiguities on a more detailed level*. These problems might be handled well in practice – and I have here only focused on the actual standard. Some problems might also be more or less fixed in other IFRSs, regarding their respective field. From an interpretational, close to logics and the wording

⁴² It can also, for example, be unclear, on what principles or political goals a rule is based. That is, however, another kind of uncertainty.

of the rule-point of view, however, these problems seem to be indisputable. The standard can be interpreted correctly, but it does not in itself help the reader to a correct understanding of it – instead, it could be argued that it requires more prior knowledge than would be necessary. It would be beneficial if these problems were eliminated or at least reduced, which, in principle, would be fully possible. As this standard is of importance in so *many situations*, for *professionals of highly different background and competence*, and that it sometimes has an *impact on both tax law and company law*, an effort to clarify it seems important.

It should also be noted that some of the questions discussed in the above have not only economic and legal sides to them, but also a distinct *philosophical* aspect. Just think, for example, of the discussion above regarding cause and effect (5.4) and regarding incoherent accounting due to that the law sometimes relates to factors from different moments in time. If this standard was to be properly “rebooted” and made more pedagogical and, not least, more logical, it would be of interest to have these rules and principles, and also their basic underlying thoughts, looked upon, and analyzed, by philosophers, for example regarding different logical, language philosophical and knowledge philosophical perspectives. That would indeed be interesting, and perhaps also necessary, if we really want to master these tricky questions.

LL.D. Jan Kellgren is professor in Tax Law at Linköping University and visiting professor in Tax Law at Örebro University.