

58126252153687_2607202324082023

584621548962487_2607



SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

MFRS: 110

AUTHOR:

SUSANTIANA BINTI ZAKARIA
ZALZALAH BINTI MOHAMED HARUDIN



SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

MFRS: 110

AUTHOR:

SUSANTIANA BINTI ZAKARIA
ZALZALAH BINTI MOHAMED HARUDIN



DECLARATION OF COPYRIGHT

CONTENT EDITOR

AZILAHWATI BINTI ADAM

DARVINA BINTI OMAR

LANGUAGE EDITOR

ADLENA HANI BINTI ABU ADAM

AUTHOR

SUSANTIANA BINTI ZAKARIA

ZALZALAH BINTI MOHAMED HARUDIN

GRAPHIC DESIGNER

ZALZALAH BINTI MOHAMED HARUDIN

SUSANTIANA BINTI ZAKARIA

PUBLISHED EDITION 2023

All rights reserved. This publication is protected by copyright and permission should be obtained from publisher prior to any prohibited reproduction, storage in a retrieval system or transmission in any form or by any means electronics, mechanical, photocopying, recording or likewise.

Published by:

POLITEKNIK MELAKA

NO 2, JALAN PPM 10, PLAZA PANDAN MALIM,
BALAI PANJANG, 75250 MELAKA.



Cataloguing-in-Publication Data

Perpustakaan Negara Malaysia

A catalogue record for this book is available
from the National Library of Malaysia

eISBN 978-967-0838-92-2



BIOGRAPHY

Susantiana Binti Zakaria was born in Temerloh, Pahang. She received primary education in Temerloh. She then got secondary in Kuala Lumpur. She began her higher education at the Matriculation Center and continued her studies at the degrees level. She holds a Ijazah Bachelor of Accounting from Universiti Teknologi MARA. She has teaching experience at Politeknik Malaysia for 11 years. She has been teaching in Financial Accounting subject more than 10 years' experience. She started her service as a lecturer at Politeknik Kota Kinabalu, Sabah and continues her service as a lecturer at Politeknik Melaka until now.

Zalزالah Binti Mohamed Harudin was born in Banting, Selangor. She has received primary and secondary education in Banting. She holds a Diploma in Accounting and a Bachelor of Accounting (Honors) from Universiti Teknologi MARA. She has teaching experience at Politeknik Malaysia for 16 years. She has been teaching in Financial Accounting subject more than 10 years' experience. She started her service as a lecture at Politeknik Merlimau, Melaka, Politeknik Kuching, Sarawak and still continues her service as a lecture at Politeknik Melaka.



ACKNOWLEDGEMENTS

We would like to express our gratitude to the Almighty for giving me the strength, courage, and health to complete this ebook. We also would like to thank to our Head of Department Puan Rosmaria Binti Ismail, our Head of Course Encik Saifulnizam Bin Zakariah, and our colleagues at Jabatan Perdagangan, Politeknik Melaka.

We also owe my appreciation to all our colleagues who never stopped and helped us develop our ideas, and who read and commented on several topics. Also grateful to our team course partner for showing their patience and help.

Above all, we would like to address my heartfelt gratitude to my family members especially to our father, mother, spouse, and our lovely kids for their constant support and inspiration towards our profession.



ABSTRACT

Subsequent events are events that occur after the Statement of Financial Position date but before the financial statements for that period are published or available for publication. It is also an event that provides additional information about the conditions existing at the Statement of Financial Position date, including estimates used in the preparation of the financial statements for that period. Recognizing subsequent events in financial statements can be highly subjective. In view of the length of time required for a restatement of financial statements, it is worth considering carefully whether the circumstances of a subsequent event could be interpreted as not requiring a restatement of the financial statements. There is a risk of inconsistent application of subsequent event rules so that similar events do not always result in the same financial statement treatment. Therefore, the best approach is to adopt internal policies on which events will always result in a restatement of the financial statements; these policies are likely to need to be updated on an ongoing basis as the enterprise encounters new subsequent events that were not previously included in its policies.



TABLE OF CONTENTS

| | |
|---|-----------|
| DECLARATION OF COPYRIGHT | i |
| BIOGRAPHY | ii |
| ACKNOWLEDGEMENTS..... | iii |
| ABSTRACT..... | iv |
| TABLE OF CONTENTS..... | v |
| LIST OF FIGURES..... | vii |
| 1 INTRODUCTION..... | 1 |
| 1.1 Introduction | 1 |
| 1.2 Subsequent Events after the reporting date | 1 |
| 1.3 Types of events..... | 3 |
| 2 ADJUSTING EVENT | 4 |
| 2.1 Definition | 4 |
| 2.2 Recognition and measurement | 4 |
| 2.3 Accounting treatment and Disclosure..... | 5 |
| 2.3.1 Bankruptcy of receivables..... | 6 |
| 2.3.2 Realizable value of inventories | 8 |
| 2.3.3 Confirmation of court case | 10 |
| 2.3.4 Impairment of assets | 12 |
| 2.3.5 Asset acquired and Proceed from the sale of assets | 13 |
| 2.3.6 Profit sharing or bonus payments..... | 14 |
| 2.3.7 Fraud or errors | 15 |
| 3 NON-ADJUSTING EVENT | 16 |
| 3.1 Definition | 16 |
| 3.2 Recognition and measurement | 16 |
| 3.3 Accounting treatment and Disclosure..... | 17 |
| 3.3.1 Business Combination..... | 19 |
| 3.3.2 Discontinue an operation..... | 20 |
| 3.3.3 Purchase, classification of assets as held for sale | 21 |
| 3.3.4 Destruction Major Production Plant by Fire | 22 |
| 3.3.5 Major Restructuring..... | 23 |
| 3.3.6 Ordinary Share Transaction | 24 |
| 3.3.7 Changes in Asset Prices or Foreign Exchange Rates | 25 |
| 3.3.8 Changes in Tax Rates or Law | 26 |



| | | |
|------------|--|-----------|
| 3.3.9 | Significant Commitments or Contingent Liabilities..... | 27 |
| 3.3.10 | Major Litigation..... | 28 |
| 3.4 | Dividends vs Going Concern | 29 |
| 4 | EXERCISE AND SOLUTION | 30 |
| 4.1 | EXERCISE | 30 |
| | Question 1 | 30 |
| | Question 2 | 31 |
| | Question 3 | 32 |
| | Question 4 | 33 |
| 4.2 | SOLUTION..... | 34 |
| | Question 1 | 34 |
| | Question 2 | 35 |
| | Question 3 | 36 |
| | Question 4 | 37 |
| | REFERENCES..... | 38 |



LIST OF FIGURES

| | |
|---|----|
| Figure 1: Comparison Adjusting Event Vs. Non-Adjusting Event..... | 3 |
| Figure 2: Definition Adjusting Event | 4 |
| Figure 3: Example of an adjusting events subsequent to the reporting period | 5 |
| Figure 4: Disclosure Non-Adjusting Events | 17 |
| Figure 5: Examples of Non-Adjusting Events | 18 |
| Figure 6: Dividends vs Going Concern | 29 |

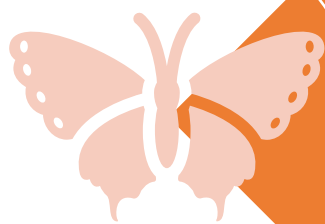
1 INTRODUCTION

1.1 Introduction

It is essential that users of financial reports receive relevant and reliable information so that they can assess the risk facing by the entity. Therefore, the effects of transactions and events that have occurred during the period should be reflected in the information provided to users of financial statements. The same applies to other significant transactions and events occurring after the reporting date but prior to the authorisation to issue. These significant events after the reporting date may have an impact on the entity's performance and position.

The information provided to the user would be incomplete if these events were not disclosed in the financial statements. In accordance with MFRS 110, events occurring after the reporting period are subsequent events that occurred after the reporting date that may affect the financial performance and financial position of the current year.

1.2 Subsequent Events after the reporting date



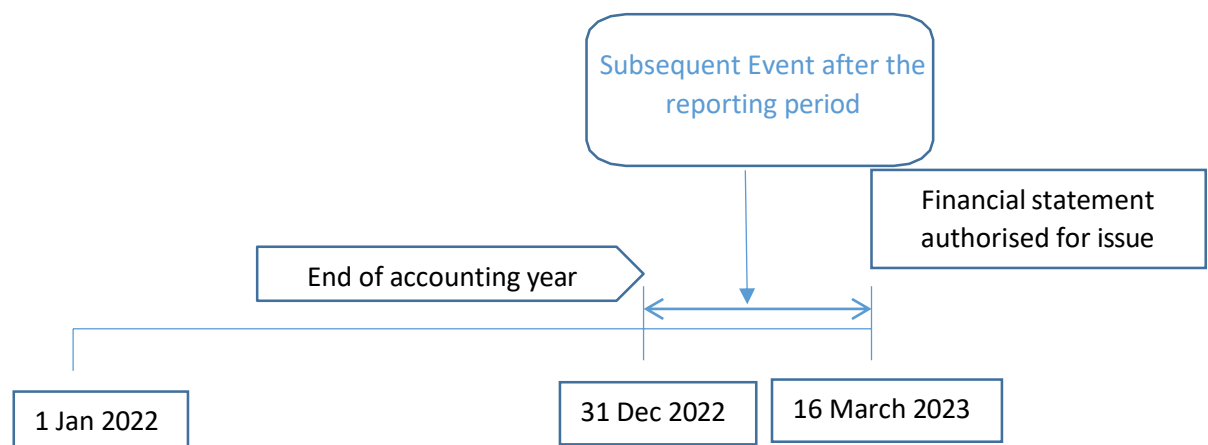
MFRS 110 defines subsequent events as 'all events or transactions, whether favourable or unfavourable, that take place after the end of the company's financial reporting date but prior to the date on which the financial statements have been authorised to be issued'.



Depending on their nature and significance, these events are normally disclosed in the notes to the financial statements. Under MFRS 110 a company is required to disclose the date on which the financial statements were authorised for issue and the identity of the authorising officer. In practice, this is usually the date on which the board of directors of the entity has authorised the financial statements for the issue. This information is important to users because events subsequent to the financial statements are not reflected in the current financial statements.

Scenario 1

On 26 February 2023, financial statements of Pena Bhd for the year ended 31 December 2022 were completed. The financial statements are reviewed and authorised for issue by the Board of Directors on 16 March 2023.



** The subsequent event after the reporting date are those events that occur after end of the accounting year, 31 December 2022, and prior to the date of approval for issue by the Board of Directors, 16 March 2023*



1.3 Types of events.

Two types of subsequent events have been identified in MFRS 110. Those are:

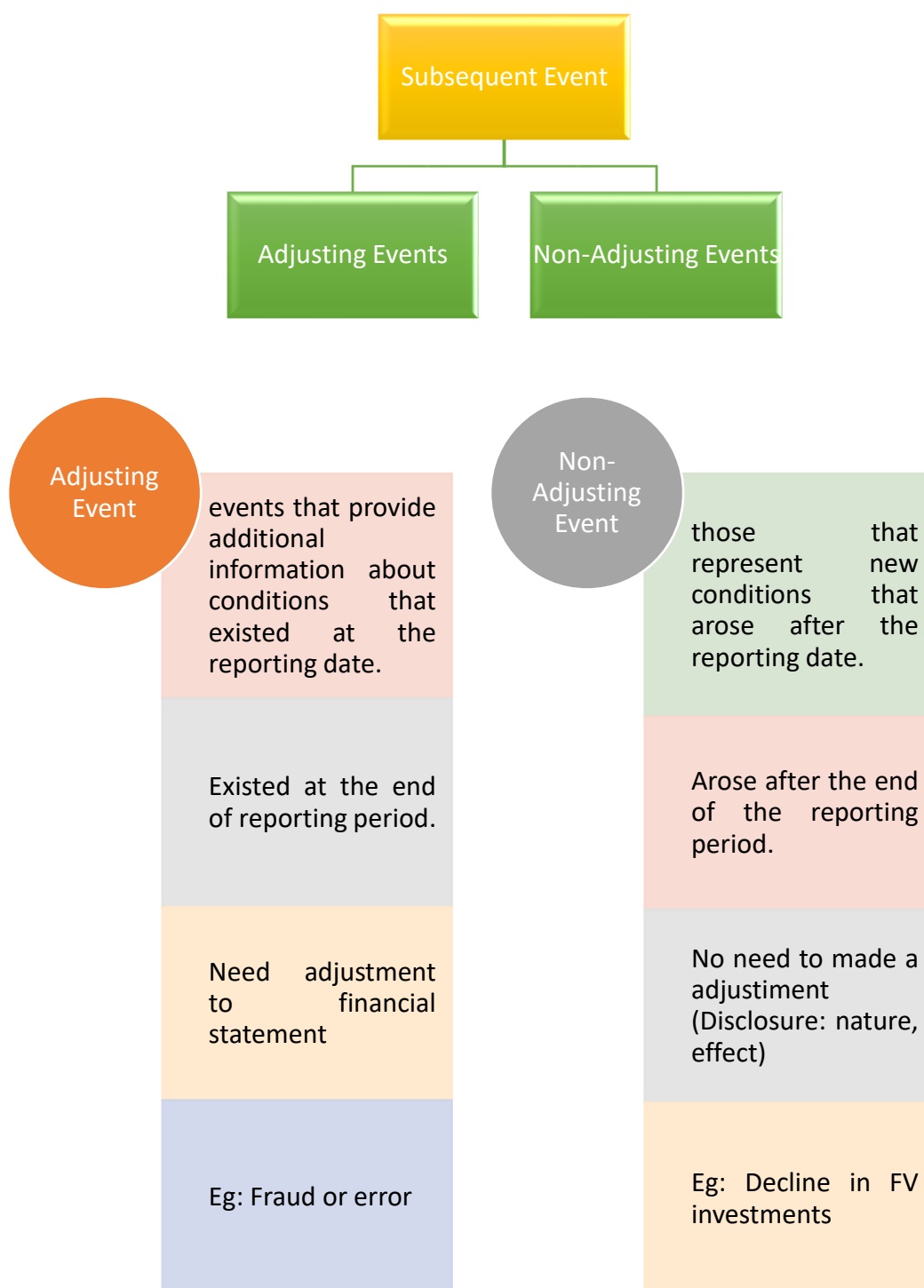


Figure 1: Comparison Adjusting Event Vs. Non-Adjusting Event



2 ADJUSTING EVENT

2.1 Definition

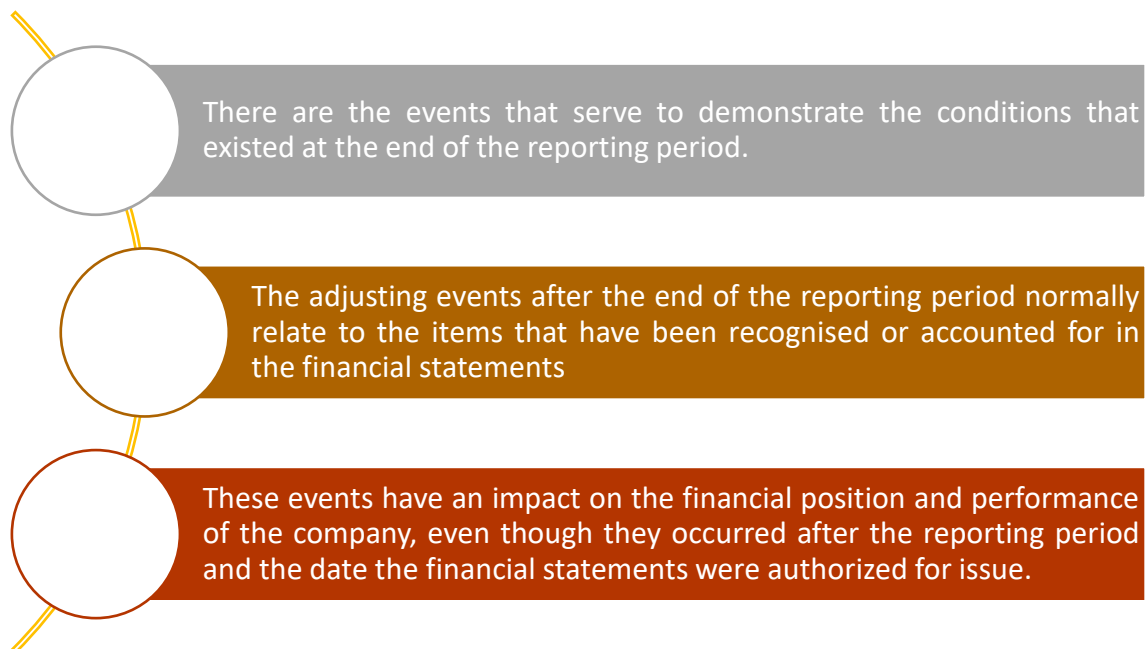


Figure 2: Definition Adjusting Event

2.2 Recognition and measurement

Upon identification of adjusting events, a company shall update the amounts previously recognised in its financial statements to reflect the adjusting events occurring after the reporting period. If the amounts have not already been recognised, included or accounted for, the company shall recognise or include them in the financial statements.



Scenario 2

Pena Bhd discovered that one of their customers was going bankrupt and was unable to pay the amount owed to Pena Bhd.

Recognition & Measurement

Therefore, Pena Bhd is required to make an adjustment to the receivable and to the allowance for impairment of trade receivables previously recognised in the financial statements.

2.3 Accounting treatment and Disclosure

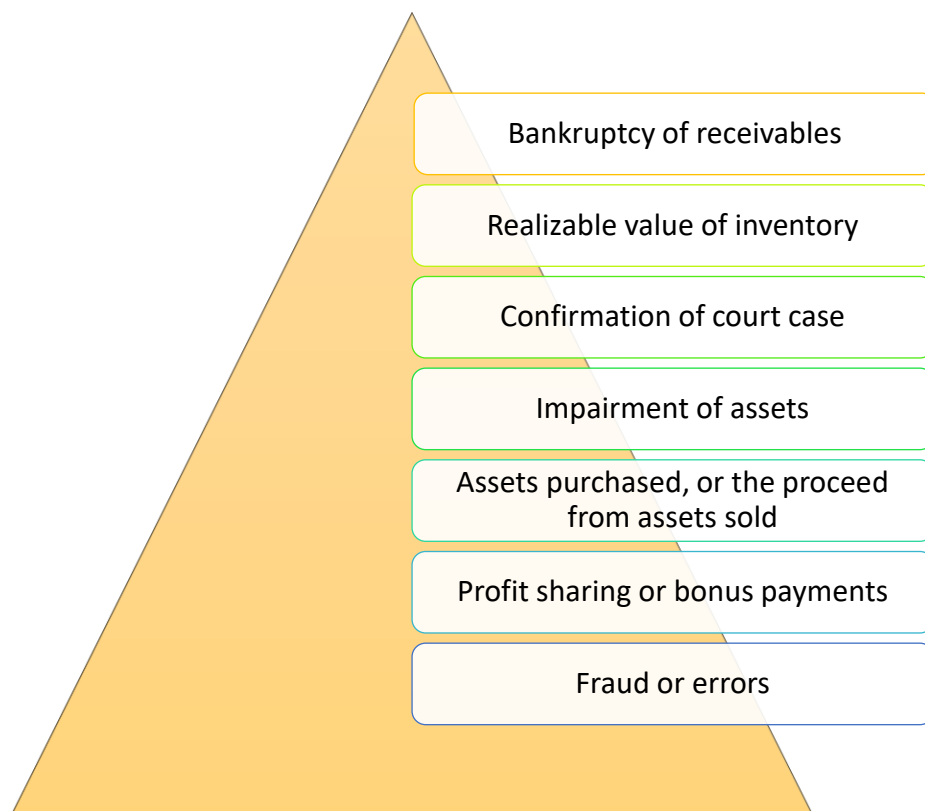
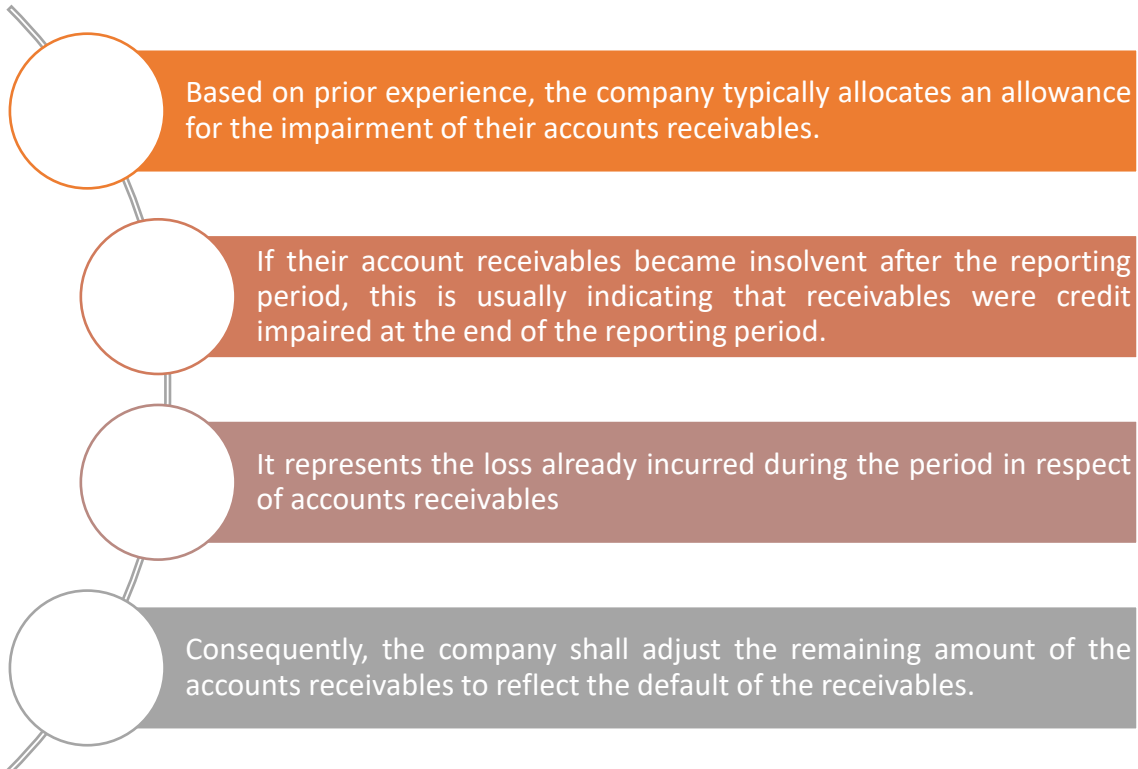


Figure 3: Example of an adjusting events subsequent to the reporting period



2.3.1 Bankruptcy of receivables



BANKRUPTCY



Scenario 3

On 15 January 2023, a customer of Pena Bhd, which was considered to be in good standing in the financial year 2022, was later found to be bankrupt. No provision for impairment of its trade receivables has been made to date.

Nature of the event

Adjusting event.

Accounting treatment

| | | | |
|----|----------|-------------------|-------|
| Dr | Bad debt | RM xx | |
| | Cr | Trade Receivables | RM xx |

Disclosure

As the bankruptcy existed during the 2022 financial year but was not known until 15 January 2023, Pena Bhd should write off the customer as a bad debt in 2022. The effect of this event will reduce the profit and the trade receivables in 2022.



Scenario 4

A customer of Pena Bhd who owed the company RM380,000 was declared insolvent on 5 February 2023. There is no expectation that this amount will be recoverable. An allowance of RM700,000 has already been made by the company for the impairment of its trade receivables.

Nature of the event

Adjusting event.

Accounting treatment

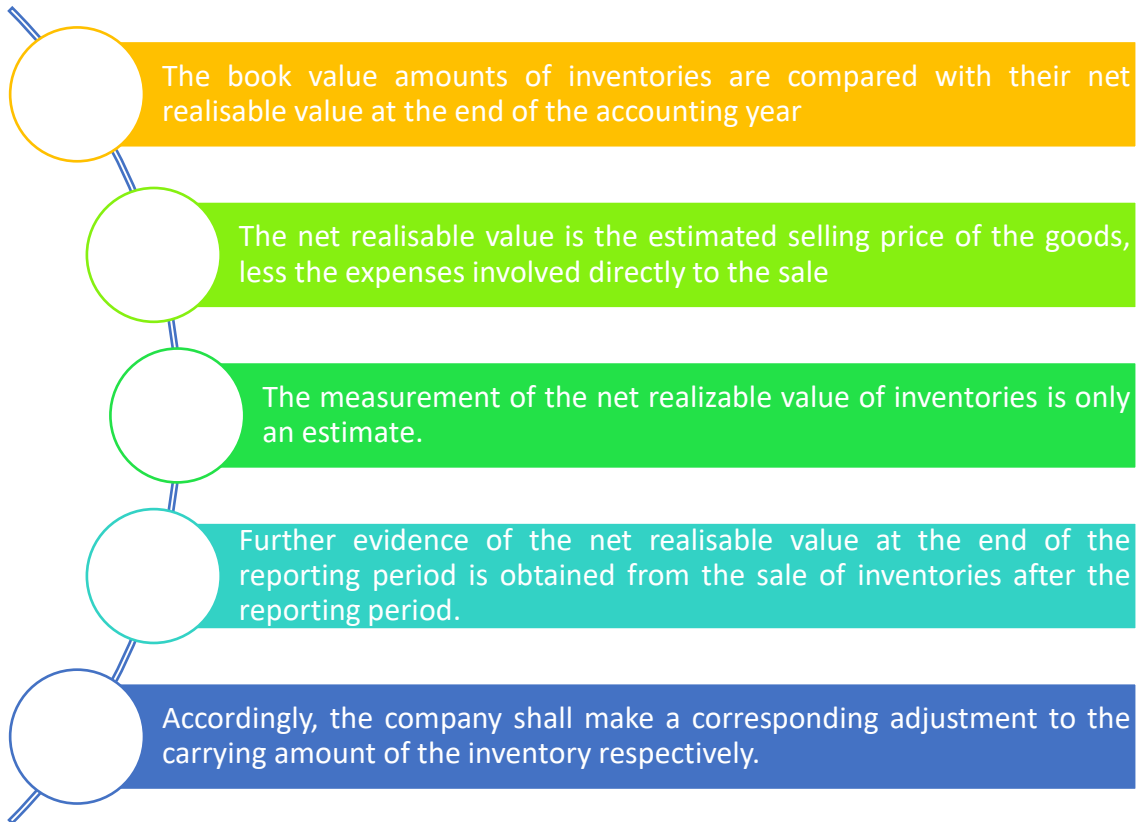
| | | | |
|----|---|-------------------|-----------|
| Dr | Allowance for impairment of trade receivables | RM380,000 | |
| | Cr | Trade Receivables | RM380,000 |

Disclosure

It is possible that the customer was solvent at the reporting period, but subsequent events indicate that the entity needs to adjust its financial statements to reduce its trade receivables of RM380,000 and its allowance for impairment of its trade receivable of RM380,000. The allowance for impairment and trade receivables is reduced by RM380,000 as a result of this event.



2.3.2 Realizable value of inventories



Scenario 5

The carrying amount of the inventories held by Pena Bhd on 31 December 2022 was RM43,000 and the net realisable value was RM52,000. On 3 March, the inventory was sold for RM39,000.

Nature of the event

Adjusting event.

Accounting treatment

| | | | |
|----|---------------|-----------|---------|
| Dr | Profit & Loss | RM4,000 | |
| | Cr | Inventory | RM4,000 |

Disclosure

Further evidence of the need to adjust the carrying amount to RM39,000 is provided by the actual sale. In the current year, the loss of RM4,000 is recognised and reduction in inventory by RM4,000.



Scenario 6

Closing inventories of Pena Bhd were valued at RM60,000 at the end of accounting period 2022. However, 2 weeks later, the sale price of the inventory was only RM40,000. It was clear that there had been an overstated amount of closing inventory.

Nature of the event

Adjusting event.

Accounting treatment

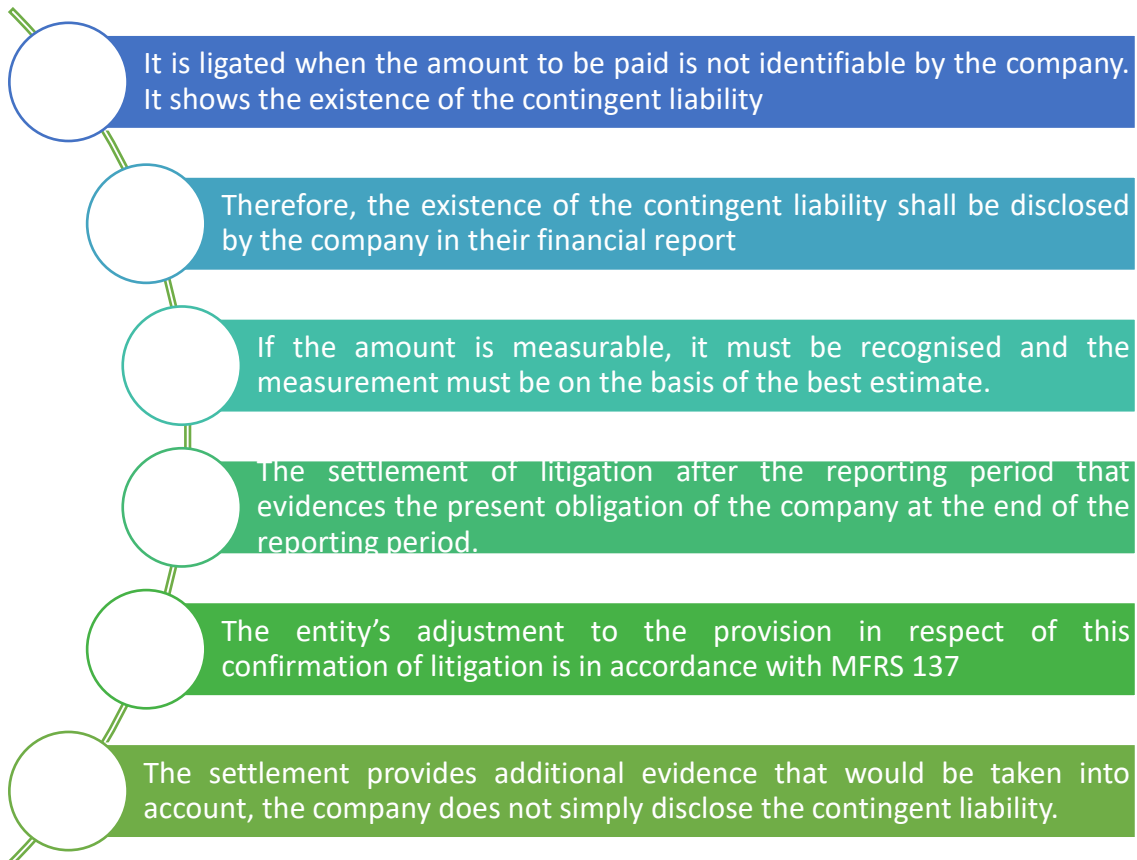
| | | | |
|----|---------------|-----------|----------|
| Dr | Profit & Loss | RM20,000 | |
| | Cr | Inventory | RM20,000 |

Disclosure

Further evidence of the need to adjust the carrying amount of inventory to RM40,000 is provided by the actual sale. In the current year, the loss of RM20,000 is recognised and reduction in inventory by RM20,000.



2.3.3 Confirmation of court case



Scenario 7

In the accounting year 2022, Pena Bhd has been sued by the customer for RM150,000 for skin eczema and pain following the customer's use of a product sold by Pena Bhd. A month after the reporting period, but prior to the financial statements being authorised for issue, the case went to court. The judgement was in favour of the client, who was awarded RM100,000

Nature of the event

Adjusting event.

Accounting treatment & Disclosure

| | | |
|----|---------------|------------------------|
| Dr | Profit & Loss | RM100,000 |
| | Cr | Liability – Court case |
| | | RM100,000 |

The confirmation of the court case represents an obligation to the company at the end of the reporting date. The loss and the corresponding liability of RM100,000 shall be recognised.



Scenario 7

In accounting year 2022, Pena Bhd has been sued by the customer for RM150,000 for skin eczema and pain following the customer's use of a product sold by Pena Bhd. A month after the reporting period, but prior to the financial statements were authorised for issue, the case went to court. The judgement was in favour of the client, who was awarded RM100,000

Nature of the event

Adjusting event.

Accounting treatment & Disclosure

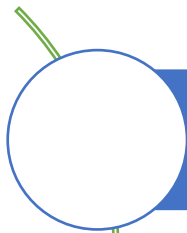
| | | |
|----|--------------------------------|-----------|
| Dr | Profit & Loss | RM100,000 |
| | Cr Liability – Court case | RM100,000 |

Disclosure

The confirmation of the court case represents an obligation to the company at the end of the reporting date. The loss and the corresponding liability of RM100,000 shall be recognised.



2.3.4 Impairment of assets



An Impairment loss on an asset is a reduction in the carrying amount of an asset when the asset's recoverable amount is less than its carrying amount.



Impairment may arise from factors such as a significant decline in the market value of the asset, adverse changes in the physical condition of the asset, technological obsolescence or a decrease in the expected future cash flows from the asset.



Scenario 9

On 15 January 2023, one of the buildings of Pena Bhd with a carrying value of RM80,000 was impaired. The recoverable amount of the building was RM55,000.

Nature of the event

Adjusting event.

Accounting treatment

| | | | |
|----|----------------------------|------------------|----------|
| Dr | Profit & Loss – Impairment | RM25,000 | |
| | Cr | Asset - Building | RM25,000 |

Disclosure

The amount of the impairment loss shall be recognised as an expense in the financial statements for the financial year 2022. Therefore, the loss of RM25,000 and reduction in building by RM25,000 should be recognised



2.3.5 Asset acquired and Proceed from the sale of assets

Proceed from the sale of property, plant, and equipment refer to the cash or other consideration received by a company when it sells an asset that is classified as property, plant and equipment.

The determination after the reporting date of the cost of assets acquired before the end of the reporting date or the proceeds from assets sold before the end of the reporting date are one of the adjusting events.

This determination of cost of assets and proceeds from assets sold are evidence of the present obligation of the company at the end of the reporting period.



Scenario 10

On 7 January 2023, the cost of a motor vehicle being disposed before year end was being determined.

Nature of the event

Adjusting event.

Accounting treatment

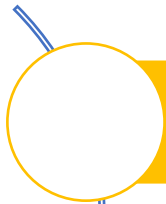
| | | |
|----|------------------------------|------|
| Dr | Disposal Account-MV | RMxx |
| | Cr Asset - Motor vehicle | RMxx |

Disclosure

For the financial year 2022, the financial statements must reflect the amount of the disposal of motor vehicles.



2.3.6 Profit sharing or bonus payments



Profit sharing or bonus payments are forms of additional compensation provided to the employee by a company based on its profitability or individual performance



The determination of the amount of profit-sharing or bonus payments after the end of the reporting date is to be accounted for in the current year. (See MFRS119 Employee Benefits).



Scenario 11

Pena Bhd plans to pay its employee 1% of its profit before tax if their profit before tax exceeds RM500,000 as a profit-sharing plan to the employee. Upon completing the preparation of financial statements, the profit before tax is RM650,000

Nature of the event

Adjusting event.

Accounting treatment

| | | | |
|----|---------------|----------------------------------|--|
| Dr | Profit & Loss | RM6,500 | |
| | Cr | Liability – Profit sharing bonus | |
| | | RM6,500 | |

Disclosure

As the profit before tax was determined before the accounts were authorized for issue, the entity has to recognize an expense and liability of 1% on RM650,000.

When a fraud is discovered, it becomes clear that the financial statements contain errors. As a result, the company is required to adjust the effect of the fraud on its financial statements.



Scenario 12

During the audit, a fraud was discovered in relation to the year 2022. The fraud was intentional to increase the profit by valuing the inventory higher than the reality by RM25,000. The fraud about the company maintained the high profit by not writing off the bad debt on the receivables. The bad debt will be carried forward to the later year by RM10,000.

Nature of the event

Adjusting event.

Accounting treatment & Disclosure

| | | |
|----|---------------|-------------------|
| Dr | Profit & Loss | RM35,000 |
| | Cr | Inventory |
| | | RM25,000 |
| | | Trade Receivables |
| | | RM10,000 |

Disclosure

The financial statement for the year 2022 must be adjusted after the discovery of the fraud. The effect of this event will reduce the profit by RM35,000, inventory by RM25,000, and the trade receivables by RM10,000.



3 NON-ADJUSTING EVENT

3.1 Definition

There are the events that occur after the reporting date but do not provide additional information about the conditions that existed at the end of the reporting date. These events are disclosed in the financial statements but do not require adjustments to the amounts reported in the financial statements.

3.2 Recognition and measurement

The identification of non-adjusting events requires disclosure in the financial statements but does not require adjustments to the amounts reported in the financial statements.

Scenario 13

A month after accounting year 2022, the fair value of Pena Bhd's investment decline from RM245,000 to RM224,000.

Recognition & Measurement

The decline in fair value is normally not a reflection of the condition of the investments at the end of the reporting period, but is a reflection of circumstances that have arisen subsequently. As a result, Pena Bhd does not require adjustments to the amounts reported in the financial statements.



3.3 Accounting treatment and Disclosure

The following information shall be disclosed for each material category of non-adjusting event occurring after the end of the reporting period:

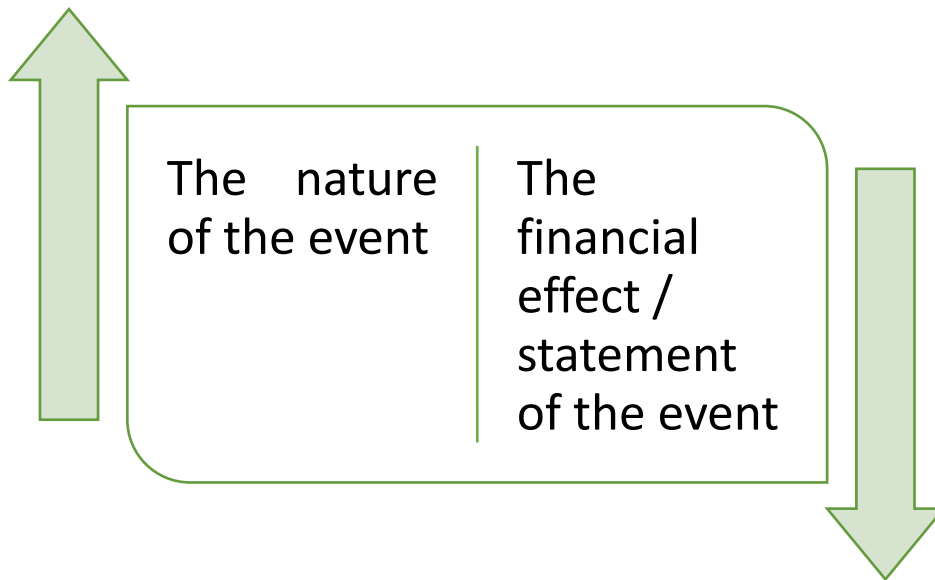


Figure 4: Disclosure Non-Adjusting Events

Failure to disclose this non-adjusting event may affect the ability of users of the financial statements to make appropriate evaluations and decisions on the basis of those financial statements.

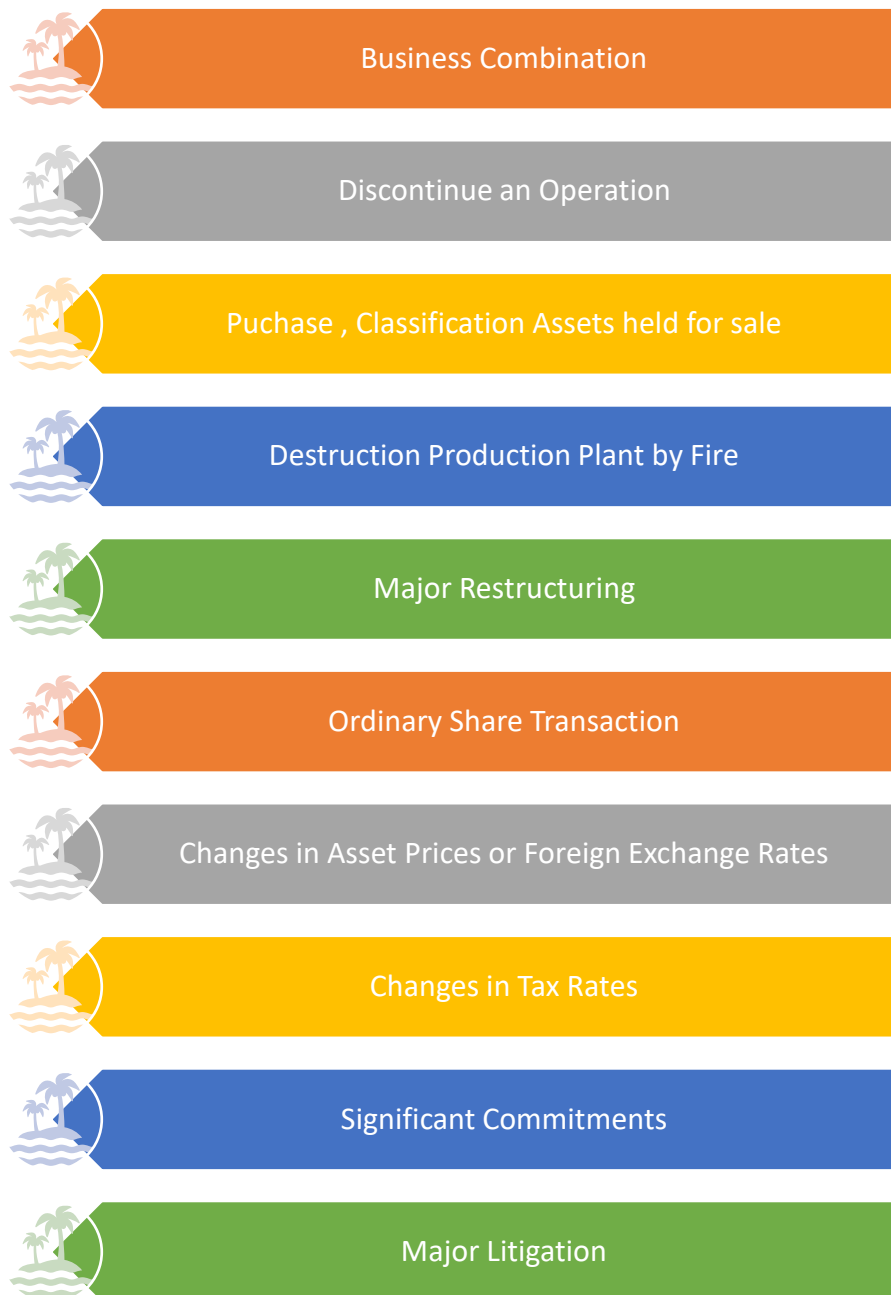


Figure 5: Examples of Non-Adjusting Events



3.3.1 Business Combination

MFRS 3 defines a business combination as a transaction or other event in which an acquirer obtains control of one or more entities of a group.

If a significant business combination or acquisition takes place after the reporting period, it is considered to be a non-adjusting event.



Scenario 14

On 17 February 2023, Pena Bhd entered into share sale agreements to divest its entire equity in the Wena Sdn Bhd for total cash consideration of RM1.5 million.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

A decision taken by Pena Bhd to enter into share sale agreements to Wena Sdn Bhd after the reporting period reflects circumstances that have arisen subsequently.



3.3.2 Discontinue an operation

A discontinuing operation is a company's decision to cease operations of a particular segment, division or line of business.

An entity shall recognise the effects of discontinuing operations in its financial statements when it decides to discontinue an operation.



Scenario 15

Pena Bhd made a public announcement on 20 January 2023 regarding a formal plan to cease operating, which had been approved by the Board of Directors.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- iii) the nature
- iv) financial effect / statement of the event

A decision taken by the board to discontinue an operation does not create a liability. Since the event occurs subsequent to the reporting period, Pena Bhd doesn't need to adjust the amount in the statement of comprehensive income.



3.3.3 Purchase, classification of assets as held for sale

The purchase of an asset is the acquisition of an asset in exchange for cash or other consideration, including the assumption of liabilities

Where an asset may be classified as held for sale if the asset is available for immediate sale in its present condition and the sale is highly probable

Assets that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

These assets are presented separately in the statement of financial position.

Scenario 16

On 24 January 2023, Pena Bhd entered into a sale and purchase agreement with MS Corporation, to sell 1,212 acres of land in Chenor, Pahang for RM433 million.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- v) the nature
- vi) financial effect / statement of the event

A decision taken by the board to sell the asset does not create a liability. Since the event occurs subsequent to the reporting period, Pena Bhd doesn't need to adjust the amount in the financial statement.



3.3.4 Destruction Major Production Plant by Fire

The destruction caused by the fire was an unforeseen event. It refers to conditions that did not exist before it happened.

The destruction of a major production plant by fire which takes place after the reporting period is classified as a non-adjusting event.



Scenario 17

One of the warehouses of Pena Bhd was destroyed by fire on 28 February 2023. The total carrying value of the uninsured warehouse is RM515,000

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

Since the loss of the warehouse destroyed by fire was an unforeseen event. It relates to conditions that did not exist at the end of the year. Pena Bhd doesn't need to adjust the amount of loss in the financial statement.



3.3.5 Major Restructuring

A major restructuring refers to significant changes made by a company to its organisational structure, operations or financial arrangements, also known as a corporate restructuring or business reorganisation.



Scenario 18

In February 2023, as a result of worsening economic conditions, the directors of Pena Bhd publicly announced a plan to undertake a major restructuring of their factory.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

A decision taken by Pena Bhd after the reporting date to undertake a major restructuring reflects the circumstances that have arisen after the reporting date.



3.3.6 Ordinary Share Transaction

An ordinary share transaction refers to the buying or selling of ordinary shares, which are the most common type of shares issued by a company.

A company is required to disclose a description of ordinary share transaction when there are significant ordinary share transactions



Scenario 19

On 4 March 2023, Pena Bhd will issue a further 1,000 of its ordinary shares to try to raise funds as the company has recently experienced cash flow difficulties.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

Pena Bhd's decision to issue further ordinary shares after the reporting date reflects circumstances arising after the reporting date.



3.3.7 Changes in Asset Prices or Foreign Exchange Rates

An entity generally records foreign currency operations using the spot exchange rate at the date of the operation in the functional currency.

When exchange differences arise, they are recognised in the financial statements in the same way as changes in asset prices.

Changes in asset prices or foreign exchange rates after the reporting date is classified as a non-adjusting event.



Scenario 20

The value of foreign assets of Pena Bhd will be reduced by RM105,000 due to a 15% movement in exchange rate between 31 December 2022 and 5 March 2023.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

Changes in foreign exchange rates after the reporting date reflects events which occurred after the reporting date.



3.3.8 Changes in Tax Rates or Law

Changing tax rates or legislation can have a significant impact on business and the overall economy.

The company needs to disclose in the notes to the financial statement any significant effect if there is changes in tax rates or if the tax legislation is enacted or announced after the reporting date.



Scenario 21

New tax legislation has been announced on January 2023, which will reduce the statutory tax rate from 25% to 20%. This will have a significant impact on Pena Bhd's current and deferred tax assets and liabilities.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

Changes in tax rates after the reporting date reflects circumstances which arose after the reporting date.



3.3.9 Significant Commitments or Contingent Liabilities

A contingent liability is a potential obligation or liability that arises from a past event or transaction, the outcome of which is uncertain and whose existence depends on a future event or transaction

An entity is required to disclose in the notes to the financial statement's sufficient information about contingent liabilities to enable users of its financial statements to understand the nature, timing and amount of contingent liabilities.



Scenario 22

On February 2023, Pena Bhd signed a contract with Mega Ltd for the purchase of an office building and payment will be made 3 months later.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

Significant commitment entered by Pena Bhd after the reporting period reflects circumstances which arose after the reporting date.



3.3.10 Major Litigation

Major litigation is defined as significant legal disputes or claims that could materially affect the financial position, operations, reputation or future prospects of the company.

The occurrence of a material legal dispute after the reporting date is a non-adjusting event because the event did not exist at the end of the reporting date.

It arose after the reporting period.



Scenario 23

Pena Bhd was the subject of a patent infringement lawsuit by its competitor in January 2023. Pena Bhd's legal advisors had determined that Pena Bhd was likely to lose the case. The estimated amounts of damages were RM85,500.

Nature of the event

Non-adjusting event.

Accounting treatment & Disclosure

Since this event are non-adjusting event, Pena Bhd must disclose in the notes to the financial statement:

- i) the nature
- ii) financial effect / statement of the event

Lawsuit by the competitor after the reporting period reflects circumstances which arose after the reporting date.



3.4 Dividends vs Going Concern

| Dividends | Going Concern |
|---|--|
| <ul style="list-style-type: none">• An entity should not recognise as a liability any dividends that are declared after the end of the reporting date.• These dividends do not meet the present obligation criteria of MFRS 137 because they were declared after the end of the reporting date.• MFRS 101, such dividends are disclosed as a note only in financial statements. | <ul style="list-style-type: none">• Going concern assumptions used by the company for preparing the financial statements may no longer be appropriate if, after the reporting date, management intends to liquidate the company.• In such circumstances, an entity is required to change its basis of accounting to liquidation basis from going concern basis.• The company will need to disclose it is no longer a going concern as noted in financial statements.• its assets must need to be valued at market price minus the cost to sell. |

Figure 6: Dividends vs Going Concern



4 EXERCISE AND SOLUTION

4.1 EXERCISE

Question 1

Tree Green Sdn Bhd is involved in a beauty care product in Seremban, Negeri Sembilan. Tree Green Sdn Bhd ends its financial year on 31 December every year. The financial statements will be approved for issue on 23 February 2023. The following events occur between the financial year ended and the date on which the financial statements were approved.

- a) A customer who had a debt of RM15,000 to the company, which was thought to be in good standing in the financial year 2022, was later found to be bankrupt on 12 January 2023.
- b) The Board of Directors decided to pay a dividend of 5% to the ordinary shareholder on 20 January 2023.
- c) The machine has a useful life of 10 years and was acquired at a cost of RM50,000 on 1 January 2019. On the 3rd February 2023, there was an indication that the machine might be impaired. The value in use is RM27,000 and the fair value less costs of disposal is RM25,000.
- d) On 14 February 2023, the company signed a letter of intent for the sale of its entire shareholding in Image Tech, a company that has temporarily ceased its operations.
- e) An insurance claim by TreeGreen Sdn Bhd for RM142,000 was agreed on 10 February 2023 in respect of the fire as compensation for damages.

As an accountant of TreeGreen Sdn Bhd:

- i. Determine whether the above events are adjusting events' or 'non-adjusting events'.
- ii. Analyse the accounting treatment of each event in the financial statements of TreeGreen Sdn Bhd.



Question 2

Using the situation below, you must complete the table whether the situation below are adjusting event' or 'a non-adjusting.

| No | Situation | Adjusting / Non-Adjusting |
|-----|---|---------------------------|
| 1. | Major manufacturing facility destroyed by fire before the reporting date. | |
| 2. | Bankruptcy of customer. | |
| 3. | Dividend proposal. | |
| 4. | Announcement of plan to cease operation. | |
| 5. | Asset disposed of before the reporting period. | |
| 6. | Obtains information about impairment assets after the reporting date. | |
| 7. | Detection of fraud which shows that the financial statements are incorrect. | |
| 8. | Financial statement error. | |
| 9. | Significant business combinations after the reporting date. | |
| 10. | Court proceedings. | |
| 11. | Issuance of new shares | |
| 12. | The determination of the profit-sharing payment or bonus after the end of the reporting date. | |



Question 3

1. Specify the consideration of the following two events:
 - a) Dividends
 - b) Going Concern Status

2. Delina Bhd has just closed its books for the year ended 30 June 2022. The annual financial statements of the company will be authorised or issued on 30 September 2022. For the year ended 30 June 2022, the following situation arise:
 - a) On 1 July, a final ordinary dividend of RM225,000 was declared for the financial year ended 30 June 2022.
 - b) The company proposed to establish an Employee Share Option Scheme offering up to 10% of the shares to eligible staff of the company and its subsidiaries.
 - c) Included in inventories are items with a cost of RM25,000. That the inventory will be sold on 15 July 2022 for RM15,000.
 - d) The companies have overstated its turnover by RM35,000 for the year ended 30 June 2022.
 - e) On 8 August 2022, Delina Bhd discovered that its 2022 depreciation charge was overstated by RM45,000 due to a calculation error.

You are required:

- i. Examine each situation above either 'adjusting events' or 'non-adjusting events'.
- ii. Determine appropriate accounting treatment of each event in the financial statements of Delina Bhd.



Question 4

The financial statements of Delima Sakti Bhd shall be closed on 30 September of each year. For the year ended 30 September 2022, the financial statements of the company have been authorised for issue on 30 November 2022. The following events have been identified for the period after 30 September 2022

- a) On 13 October 2022, it was discovered that a cash payment of RM75,000 on 25 September 2022 for the purchase of goods had not been recorded at all.
- b) On 30 October 2022, the company proposed the payment of a dividend of RM0.20 per share to the existing shareholder (650,000 units of ordinary shares of RM1 each).
- c) On 16 November 2022, the company discovered that some of its inventory, valued at RM62,000, had been completely destroyed by a small fire at the back of its warehouse.
- d) On 27 October 2022, the company entered into a contract for the purchase of a piece of land for the expansion of the company's operations.
- e) One of the company's trade receivables was filed for bankruptcy in November 2022 and the amount due to the company as at 30 September 2022 was RM33,000. The company would be unable to recover the trade receivable amount.
- f) The factory and office building by Delima Sakti Bhd's main operation was destroyed by fire on 17 October 2022. The loss estimate will be RM1.5 million.
- g) Delima Sakti Bhd subscribed for an additional 100,000 shares in the subsidiaries of Habeebah Corner Bhd at RM1 per ordinary share in each of the companies on 15 November 2022.

You are required:

- i. Ascertain whether the above events are adjusting event' or 'non-adjusting event'.
- ii. Determine the accounting treatment of each event in the financial statements of Delima Sakti Bhd.



4.2 SOLUTION

Question 1

| No | i) Adjusting vs Non-Adjusting | ii) Accounting Treatment |
|----|-------------------------------|---|
| a) | Adjusting | Dr P&L - Bad debt RM15,000 Cr Trade receivables RM15,000 |
| b) | Non-Adjusting | Disclose in a financial statement: 1) Nature 2) Financial Effect or statement |
| c) | Adjusting | Dr P&L – IL RM3,000 Cr Machine RM3,000 |
| d) | Non-Adjusting | Disclose in the financial statement: 1) Nature 2) Financial Effect or statement |
| e) | Non-Adjusting | Disclose in financial statement: 1) Nature 2) Financial Effect or statement |



Question 2

| No | Situation | Adjusting / Non-Adjusting |
|-----|---|---------------------------|
| 1. | Major manufacturing facility destroyed by fire before the reporting date. | Adjusting |
| 2. | Bankruptcy of customers. | Adjusting |
| 3. | Dividend proposal. | Non-Adjusting |
| 4. | Announcement of plan to cease operation. | Non-Adjusting |
| 5. | Asset disposed of before the reporting period. | Adjusting |
| 6. | Obtains information about impairment assets after reporting date. | Adjusting |
| 7. | Detection of fraud which shows that the financial statements are incorrect. | Adjusting |
| 8. | Financial statement error. | Adjusting |
| 9. | Significant business combinations after the reporting date. | Non-Adjusting |
| 10. | Court proceedings. | Non-Adjusting |
| 11. | Issuance of new shares | Non-Adjusting |
| 12. | The determination of the profit-sharing payment or bonus after the end of the reporting date. | Non-Adjusting |



Question 3

1. Specify the consideration of the following two events:

| Dividends |
|---|
| <ul style="list-style-type: none"> • An entity should not recognise as a liability any dividends that are declared after the end of the reporting date. • These dividends do not meet the present obligation criteria of MFRS 137 because they were declared after the end of the reporting date. • MFRS 101, such dividends are disclosed as a note only in financial statements. |

| Going Concern |
|---|
| <ul style="list-style-type: none"> • Going concern assumptions used by the company for preparing the financial statements may no longer be appropriate if, after the reporting date, management intends to liquidate the company. • In such circumstances, an entity is required to change its basis of accounting to liquidation basis from going concern basis. • The company will need to disclose it is no longer a going concern as noted in financial statements. • its assets must need to be valued at market price minus the cost to sell. |

2.

| No | i)Adjusting Vs Non-Adjusting | ii)Accounting Treatment |
|----|------------------------------|---|
| a) | Non-Adjusting | Disclose in financial statement: 1)Nature 2)Financial Effect or statement |
| b) | Non-Adjusting | Disclose in financial statement: 1)Nature 2)Financial Effect or statement |
| c) | Adjusting | Dr P&L RM35,000 Cr Trade Receivables RM35,000 |
| d) | Adjusting | Dr P&L RM10,000 Cr Inventories RM10,000 |
| e) | Adjusting | Dr Acc Dep RM45,000 Cr P&L RM45,000 |



Question 4

| No | i) Adjusting Vs Non-Adjusting | ii) Accounting Treatment |
|----|-------------------------------|---|
| a) | Adjusting | Dr P&L-Purchases RM15,000 Cr Cash RM15,000 |
| b) | Non-Adjusting | Disclose in the financial statement: 1) Nature 2) Financial Effect or statement |
| c) | Adjusting | Dr P&L RM62,000 Cr Inventories RM62,000 |
| d) | Non-Adjusting | Disclose in financial statement: 1) Nature 2) Financial Effect or statement |
| e) | Adjusting | Dr P&L RM33,000 Cr Trade Receivables RM33,000 |
| f) | Non-Adjusting | Disclose in the financial statement: 1) Nature 2) Financial Effect or statement |
| g) | Non-Adjusting | Disclose in financial statement: 1) Nature 2) Financial Effect or statement |



REFERENCES

- Jane Lazar (2018). Company & Group Financial Reporting (9th ed.). Kuala Lumpur: Pearson Malaysia.
- Lazar, J., & Ching Choo, H. (2008). Financial Reporting Standards for Malaysia (2nd ed.). Kuala Lumpur: Mc Graw Hill.
- Liong Tong, T. (2019). Financial Accounting and Reporting in Malaysia (7th ed., Vol. 1). Kuala Lumpur: Wolters Kluwer.
- Malaysian Financial Reporting Standard (MFRS). (n.d.).

58126252153687_2607202324082023

584621548962487_2607



SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

e ISBN 978-967-0838-92-2



9 789670 838922

POLITEKNIK MELAKA

(online)