

FINANCIAL ACCOUNTING 700 Seminar RS 7 – Events after the reporting period <i>PH Ferreira</i>	DEPARTMENT OF ACCOUNTING UP
--	--

Prescribed works:

- | | | | |
|----|---------------------------------------|---|-------------------------|
| 1. | IAS 10 | – | IASB |
| 2. | GAAP Handbook Volume 1
- Chapter 6 | – | Pretorius, et al |

Questions:

		Time
Question 1	Accounting for events after the reporting period	± 20 min
Question 2	Classification of events after the reporting period	± 10 min
Question 3	Disclosure of events after the reporting period	± 15 min
Question 4	Conceptual question	± 15 min

QUESTIONS**QUESTION 1**

Discuss how the following events which occurred after the reporting date, but before the financial statements were authorised for issue, should be accounted for:

- 1.1 The company's research department has invented a new product, which will make it a leader in its field.
- 1.2 The company's competitors have brought a new product on the market, which renders their own product obsolete.
- 1.3 A large customer of the company has financial problems.
- 1.4 The market price of the company's main product has deteriorated substantially.
- 1.5 The market value of the company's largest investment has decreased by 50%.
- 1.6 A significant defect has been discovered in one of the company's products and these products will have to be recalled and changed.
- 1.7 A large hail storm and flood destroyed all inventories at the company's factory.
- 1.8 Dividends were proposed by the directors, but will only be authorised at the annual general meeting.

QUESTION 2

Indicate which of the following events after the reporting period (if any) would require an adjustment to assets/liabilities.

- 2.1 Discovery of fraud or errors which indicate that the financial statements are materially misstated.
- 2.2 Issuance of a significant amount of shares or debentures after the reporting date.
- 2.3 Material losses of non-current assets or inventories as a result of floods.
- 2.4 Strikes and labour disputes which result in significant losses and costs.
- 2.5 Claims: amounts received in respect of an insurance claim which was under negotiation at the reporting date.

QUESTION 3

You are the auditor of Witperd Ltd, a whisky distillery in the Western Cape. You are approached by the financial manager of the company for some advice in order to complete the group financial statements for the year ended 30 September 20X6, which will be authorised for issue at a meeting to be held on 12 November 20X6.

- A technical problem with the air humidifiers in the cellars during the long weekend in October 20X6 resulted in whisky to the value of R1 470 000 being wasted. The insurers disallowed the claim, because the technical aid personnel were negligent by not attending to the problem in time.
- During October 20X6 the company's board of directors started with negotiations for the possible take-over of Klokke Whisky Ltd. The negotiations have not yet been completed, but all indications at this stage are that the take-over will probably succeed. If the take-over is successful, it is expected that group earnings will increase by more than 40%.

QUESTION: Will it be acceptable not to disclose anything about the two matters above in the group financial statements?

REQUIRED:

Supply a justified answer to the question above.

QUESTION 4

The year-end of Equity Ltd is 31 December 20X0. On 15 February 20X1 the directors proposed a dividend of 20c per share with regard to the previous financial year. The financial statements are authorised for issue on 31 March 20X1.

REQUIRED:

Discuss the treatment of the above dividend proposal in terms of The Conceptual Framework, IAS 10 and IAS 1.