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The Disclosure of Events after the Reporting Period and the Financial Statements. Bankers' Perspectives

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Abstract: *The disclosure of events after the reporting period but before the financial statements are to be authorized for issue has effect on the statement of financial position of an entity. It gives information on the position of the entity's financial statements because the financial information of an entity is the byproduct of that particular entity's accounting system. The researcher wishes to know the effect of the adjusting and non adjusting events on the financial statements and the extent of compliance of commercial banks to the provisions of IAS 10. Descriptive research method was used to obtain only the opinion of the professionals working in the banks. The results from the data obtained indicate that Commercial banks in Nigeria adjust and disclose the adjusting events after the reporting period but before the financial statements were authorized for issue. Commercial banks in Nigeria do not adjust the non adjusting events after the reporting period but before the financial statements were authorized for issue; the events that do not affect the conditions and position of the financial statement before the reporting period. Commercial banks disclosed non adjusting events that their non-disclosure may cause the financial statements to be misleading. We therefore recommend that adjusting events after the reporting period but before the authorization of the financial statements for issue should be adjusted and disclosed. Non adjusting events should be explained on the notes so that the users of the financial statements would not be misled and draw inappropriate conclusions.*

Keywords: *IAS 10, financial statements, International financial reporting standards, window dressing, adjusting, non adjusting events and going concern.*

I. Introduction

It is usual for an entity to have important events that occur between the end of its reporting period and the date on which their financial statements are to be authorized for issue. On many occasions, there may be delay between the end of the reporting period and the date on which the financial statements are authorized. These are known as events after the reporting period. There may be gap between the end of the financial year and the date the financial statements was authorized for issue. Anything can happen within this period in the life of the organization. For example, in the closing of the books of the banks at end of the year ending, various activities are occur, they consist of reconciliation of books, making of provisions, preparing necessary accounts and adjustments, and issuing statements of accounts. The others are ensuring that transactions are posted and audited financial statements obtained from the External Auditor. The disclosure of these events has an effect on the statement of financial position of an entity. It gives information on the position of the entity's financial statements because the financial information of an entity is the byproduct of that particular entity's accounting system. Financial information is the heart of business management. Thus, Zimmerman and Wats (1986) said that the major role of accounting is to permit informed judgments and decision making by the users of such information.

Idekwulim (2014), identify in his work the prescription of International Accounting Standard (IAS 10) on the accounting treatments on the events that occurred after the reporting date (events after balance sheet date) but before the financial statements were authorized for issue. However, there are some events that provide additional information about the conditions in existence as of the financial statements reporting date. The events include the estimates used to prepare the financial statements for that period. Some events provide new information about conditions that did not exist as at the reporting period. Some banks window dressed their financial statements and fails to adjust these events especially where it reduces the income or value of assets for the year. The consequence is the incorrect and unreliable financial information that will be made available for the users of financial statements. Therefore, the study will examine the events that result after the reporting period, the financial statements and the level of compliance by the banking sector.

Hypothesis Statement

1. H_0: Commercial banks in Nigeria do not adjust and disclose events after reporting period in the financial statements according to the provision of International Accounting Standard (IAS) 10.

2. H_0 : Commercial banks in Nigeria do not comply with the provision of International Accounting Standard(IAS 10).

II. Literature Review

Genesis of International Accounting Standard (IAS 10)

According to Deloitte, IAS 10 was developed in July 1977 with the Exposure Draft E10 which consists of Contingencies and events occurring after the balance sheet date. October, 1978 saw the development of IAS 10 contingencies and events occurring after the balance sheet date, with January, 1980 as the effective date. In August 1994, IAS 10 of 1978 was reformatted. August 1997 saw the Exposure Draft E59, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 that consists of Provisions, Contingent Liabilities and Contingent Assets emerged in September, 1998. 1 July 1999 was the effective date of IAS 37 which superseded those portions of IAS 10 (1978) that dealt with contingencies. In November, 1998 Exposure Draft E63 Events after balance sheet date was developed. IAS 10 Events after balance sheet date superseded those portion of IAS 10 (1978) dealing with events after balance sheet date came into existence in May 1999, with 1 January 2000 as effective date of IAS 10 (1999). IASB issued a revised version of IAS 10 in 18 December, 2003 and the effective date for IAS 10 revised (2003) was 1 January, 2005. 6 September, 2007 saw the retiled version of Events after the Reporting period as a consequential amendment resulting from revisions to IAS 1.

Concept of Adjusting Events

There are some events that provide additional information about the conditions in existence as t the reporting period. These events are called adjustable events. Cotter (2012) recognized adjustable events as the events that result after the reporting period which provide further evidence of the conditions that existed at the end of reporting period. The authored added that it includes an event which indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. Idekwulim (2014), see it as those events that occurred after the reporting date but before the financial statements was authorized for issue which affect the conditions and positions of the entity at the reporting date. Adjusting events provide evidence of conditions that existed at the end of reporting period, that is the origin of the event in the current reporting date (Greuning, Scott & Terblanche. 2011). Financial statements should be adjusted for adjusting events. This is also one of the requirements of IAS 10.

Generally accepted accounting principles state that the financial statements should include the effects of all events that provide additional information about conditions in existence as at the balance sheet date. This rule requires that all entities evaluate these events through the dates, when financial statements are available to be issued, while a public company should continue to do so through the date when the financial statements are actually filed with the Securities and Exchange Commission. Situations that need the adjustment in the financial statements are:

-Where a customer goes bankrupt and his debt to the bank cannot be recovered. (Irrecoverable debts).

- Where the inventory included as cost in the financial statements was sold below the cost price or carrying amount.

-The net selling price of the property, plant and equipment is lower that the carrying amount in the financial statements. I t indicates that Impairment losses took place at the reporting date.

- Damage of inventory which affects the going status of the entity.

- Lawsuit. If events took place before the reporting period that trigger a lawsuit, and lawsuit settlement is an event after a reporting period, consider adjusting the amount of any contingent loss already recognized to match the amount of the actual settlement.

Hence, Donald et. al, (2010) said that these events encompass information that an accountant would have recorded in the accounts had the information been known at the statement of financial position date.

Non Adjusting Events

These are events that occurred after the reporting date but before the financial statements was authorized for issue which do not affect the conditions and position of the entity at the reporting date. That is, they are mere indicative of conditions that arose after the end of the reporting period. An entity should not adjust its financial statements because of non adjusting events after the reporting period (Cotter, 2012).

If there are events that provide new information about conditions that did not exist as at the reporting period, and for which the information arose before the financial statements were available to be issued or were issued, these events should not be recognized in the financial statements. The situations that do not require an adjustment to the financial statements if they occur after the reporting period but before financial statements are issued or are available to be issued. Non adjusting events are:

- A business combination
- Changes in the value of assets due to changes in exchange rates
- Destruction of company assets

- Entering into a significant guarantee or commitment
- Sale of equity
- Settlement of a lawsuit where the events causing the lawsuit arose after the reporting period.

Disclosure Requirements

A company should disclose the date when an evaluation of subsequent events occurred, as well as either the date when the financial statements were issued or when they were available to be issued. According to Hong Kong Certified Public Accountant,(2014) , an entity should disclose the date when the financial statements were authorized for issue and who gave the authorization. If the entity owners or others have power to amend the financial statements after issue, the entity should disclose that fact. Accounting tool stated that entity disclosures should indicate the date when the financial statements were authorized for issue and about events after the reporting period.

When there are events which occurred after reporting period, a bank shall not prepare its financial statements on a going concern basis especially if management has decided to liquidate or cease trading or has no reliable alternative, after the reporting period.

Deloitte opine that deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive th this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting. Again, IAS 1 required disclosures if the financial statements are not prepared on a going concern basis and management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date.

It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date. If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

The disclosure requirement for non - adjusting events, indication that if non - adjusting events after the reporting period are material and non - disclosure could influence the economic decisions that users make on the basis of the financial statements or would result in misleading financial statements, the nature of the event and an estimate of its financial effect should be disclosed

Financial Information and Financial Statements

Financial information is the financial data used for optimal financial planning and decision making by the users of the financial statements. The users of the financial information are the stakeholders of an entity namely investors, creditors, suppliers, employees, government even the management of the organization. They are interested in one form of information in the financial statements or the other, and the information obtained from financial statements serve as a guide to the users.

Financial statements are records that outline the financial activities of a business, an individual or any other entity. Financial statements are meant to present the financial information of the entity in question as clearly and concisely as possible for both the entity and the users of the financial statements. The important assumptions in decision making process are the availability of quality information. This information comes from accounting information system and from financial statements. The users of financial statements need not only information but quality financial information for decision making. The issue is that any misleading information in the financial statement will cause losses to both investors and other users. Lopez. G.C. et al. (2004) said that lack of accurate information on the financial and economic situation has greater costs in the business of the users of the information. Poor financial reporting may jeopardize the ability to maintain service provision in the medium and long term by endangering its sustainability over time, precisely when these services will need to be adjusted to new circumstances.

The aim of improving public accountability through better information is indeed at the core of new public management (Lopez et al. 2003).

In a situation where a customer who is owing the bank about N10M and the provision for bad and doubtful debts of N3m has been made as at the end of the accounting year, but before authorizing the financial statement for issue; notification came to the bank that the customer is bankrupt. The bankruptcy stems from the customer's poor financial health existing at the statement of financial position date. The financial statements need to be adjusted and the event disclosed because provisions should be affected.

Again, where, the figures for inventory was overstated, it will affect cost of sales calculated, gross profit as well as net profit of the business organization. Overstatement of the assets should be adjusted and disclosed. The items of the statement of financial position that offer greatest potential for under-valuation are those that are related to delaying payments to creditors and an insufficient provision for asset replacement or doubtful debts. Some banks do not adjust nor disclose these events, but they needed to be adjusted and disclosed, to avoid giving incorrect information in the financial statements. The above information affects the third parties.

The effects from natural disasters like fire out break or erosion which occur after the reporting period require disclosure in order to keep the statement from being misleading. Some banks may have to consider whether these disasters affect their ability to continue as going concern. There is need for the adjustment and disclosure of the events in the financial statements.

III. Research Method

We employed a survey research design in this study. The research was carried out in fourteen (14) banks out of 24 banks in Nigeria.(see index I for the names of the banks). The banks were chosen as a result of their proximity and the number of experienced and professionals that are working in there. The survey design was adopted to sample the opinion of professionals (Accountants and Bankers) in the banking sector. These professionals have something to offer as it concerns the financial statements, provision of financial information, compliance to IAS and IFRS and disclosure requirements. An expert's opinion was sought to establish the validity of the contents and the reliability of the structured questionnaire during the plot survey. The questionnaire has two sections. Section one captured the personal data of the respondents, while section two solicited information on the adjustment and disclosure of events after the reporting period and the financial statements by the commercial banks in Nigeria according to the provision of IAS 10. A total number of 84 copies of questionnaires were administered, giving 6 copies of questionnaire to Managing Director, Accountant, Credit Officer, Risk Manager, Auditor and Operation Manager of each bank. The study employs descriptive method, percentages precisely to analyze the data.

IV. Empirical Results

Table 4.1 Academic Qualification

	Number of respondents	Percent %	Cumulative %	Cumulative number
HND	15	17.86	17.86	15
Bsc/BA	20	23.80	41.66	35
MBA/MA	30	35.71	77.37	65
Ph.D	10	11.90	89.27	75
Others	4	4.76	94.03	79
Uncollected questionnaire	5	5.95	99.98	84
Total	84			

Source: Questionnaire Administered 2016

Looking at the table above, it is clear that majority of the respondents have first degree and more encouraging that more than 40% have second degree and above. It is an indication that they have good knowledge in their field and the confirmation that the information obtained is reliable and sound.

Table 4.2: Professional Affiliation

	Number of respondents	Percent	Cumulative %	Cumulative number
ICAN	25	29.76	29.76	25
ANAA	14	16.66	46.42	39
ACCA	5	5.95	52.37	44
CIBN	35	41.66	94.03	79
UNCOLLECTED QU	5	5.95	99.98	84
Total	84	99.98		

Source: Questionnaire Administered 2016

The percentage of the respondents that have ICAN is 29.76%, ANAA 16% and CIBN 41.66%. Those who responded to the questionnaire were professionally competent. It gives confident that they are experts in that field.

Table 4.3: Compliance with the provision of IAS 10 by the Commercial banks

Opinion	Number of respondents	Percentage
SA & A	50	59.52
SD &D	20	23.80
NO OPINION	9	10.71
MISSINF QUES	5	5.95

Source: Questionnaire Administered 2016.

Table 4.4 Adjusting and disclosure of adjusting events after reporting period in the financial statements by the Commercial banks.

	Number of Respondent	Percentage
Strongly Agree	35	41.66
Agree	20	23.80
Strongly Disagree	8	9.52
Disagree	7	8.33
No opinion	14	16.66

Source: Questionnaire Administered 2016

Fifty five (55) out of 84 respondents, representing 65.46% of the respondents recognized the adjustment and disclosure of events after reporting period but before authorization for issue in the financial statements by the commercial banks. This shows compliance with the provision of International Accounting Standards IAS 10.

Table 4.5: Adjustment of non adjusting events after reporting period in the financial statements by the Commercial banks.

	Number of Respondent	Percentage
Strongly Agree	5	5.95
Agree	5	5.95
Strongly Disagree	40	47.62
Disagree	20	23.81
No opinion	14	16.66

Source: Questionnaire Administered 2016

Sixty (60) out of 84 respondents, representing 71.43% of the respondents do not agree with the adjustment of non adjusting events after reporting period but before authorization for issue in the financial statements of the commercial banks because events do not affect the conditions and position of the entity at the reporting date. This also indicates compliance with the provision of International Accounting Standards IAS 10.

Table 4.6: Disclosure of non adjusting events after reporting period but before authorization for issue in the financial statements by the Commercial banks.

	Number of Respondent	Percentage
Strongly Agree	36	42.86
Agree	19	22.62
Strongly Disagree	8	9.52
Disagree	7	8.33
No opinion	14	16.66

Source: Questionnaire Administered 2016.

In the above table, Fifty five (55) respondents representing 65.48% recognised that non adjusting events are disclosed in the financial statements of commercial banks especially in a situation where the non-reporting of an event would result in misleading financial statements, the nature of the event and an estimate of its financial effect should be disclosed.

Summary of Findings.

The results from the data obtained indicate that Commercial banks in Nigeria adjust and disclose the adjusting events after the reporting period but before the financial statements were authorized for issue. Commercial banks in Nigeria do not adjust the non adjusting events after the reporting period but before the financial statements were authorized for issue; the events that do not affect the conditions and position of the financial statement before the reporting period. Again, Commercial banks disclosed non adjusting events that their non-disclosure may cause the financial statements to be misleading. Above all, the results show that Commercial banks in Nigeria comply with the provision of IAS 10 in the presentation of financial statements.

V. Conclusion

The need for quality information from the financial statements by the users call for compliance to the provision of the IAS 10, adjustment and disclosure of adjusting events after the reporting period but before the authorization of financial statements for issue. During the period between the reporting period and authorization date, transactions or events may occur that affect the banking statements or operations materially. Conclusively, to ignore these events is to reject an opportunity to improve the accuracy of the financial statements. Users trust that financial statements are constant; therefore, any significant change should be disclosed. Again, the validity and quality of information from financial statements enhance informed economic decision. We therefore recommend that adjusting events after the reporting period but before the authorization of the financial statements for issue should be adjusted and disclosed. Non adjusting events should be explained on the notes so that the users of the financial statements would not be misled, and draw inappropriate conclusions.

Where the management decides to liquidate the entity or ceases trade and it has no realistic alternative than to do so after the end of the reporting period, the entity should not prepare its financial statements on a going concern basis.

Suggestion for further studies

This study was carried out only in the banking sector. Further studies should be done in other sectors of economy. In this study, only the opinions of the professionals in the banking industry were sought. The opinion of the professionals in other areas of the economy should be studied equally. The sample size may be increased to involve all other financial sectors.

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