

## Subsequent Events (ASPE)

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### What you need to know (May 2020)

#### What's the issue?

1. Most enterprises applying Accounting Standards for Private Enterprises (ASPE), unless they are an essential service, are likely experiencing a material decline in their operations or are closed. This raises questions about whether the effects of COVID-19 are a subsequent event or not and if enterprises need to adjust their year-end financial statements or provide additional disclosures.

#### What are “subsequent events” and what are the effects on the financial statements?

2. “Subsequent events” are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are complete.<sup>1</sup> There are two types of events:
  - (a) events which provide evidence of conditions that existed at the end of the reporting period (“adjusting event”); and
  - (b) events which are indicative of conditions that arose after the reporting period (“non-adjusting event”). ([Paragraph 3820.04](#))
3. When an enterprise encounters an adjusting event after the reporting period, the amounts recognized in the financial statements are adjusted for the effects of the event. ([Paragraph 3820.07](#)) For non-adjusting events, the amounts recognized in the financial statements remain unchanged. ([Paragraph](#)

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<sup>1</sup> The date of completion of the financial statements varies by entity. Refer to [paragraph 3820.07A](#) for additional guidance on determining the date of completion.

[3820.09](#)) However, an enterprise should disclose the nature and estimate of the financial effects of the events or disclose a statement that such an estimate cannot be made. ([paragraph 3820.11](#))

**How will this impact my financial statements if my year-end is between December 2019 and February 2020?**

4. The effects of COVID-19 such as mandatory closures and social distancing measures were experienced in Canada during March 2020. Therefore, enterprises applying ASPE will need to use judgment to determine whether the effects of COVID-19 represent an adjusting or non-adjusting event. For example, enterprises should consider where their business operates and when those areas were affected by COVID-19-related closures or restrictions. If an enterprise has significant global operations in the earliest-affected areas and if those operations were affected prior to year-end, the effects of COVID-19 could be an adjusting event.
5. If an enterprise concludes that COVID-19 and its effects are a non-adjusting event, financial statement disclosures may include, but are not limited to:
  - (a) significant declines in revenue;
  - (b) closures of some or all operations;
  - (c) uncertainties about recoverability of assets;
  - (d) changes in operations;
  - (e) significant declines in the value of investments; and/or
  - (f) the effects of government financial assistance.
6. The extent of disclosures to provide are also an area of judgment. Enterprises should consider whether the effects of COVID-19 in the subsequent period cause significant changes to assets or liabilities or if there is a significant effect on the future operations of the enterprise. ([Paragraph 3820.10](#)) Similarly, management should consider their users and what information would be decision-useful to them.

**How will this impact my financial statements if my year-end reporting period is after February 2020?**

7. When preparing annual financial statements in accordance with ASPE for periods after February 2020, enterprises may consider when the areas in which they operate declared states of emergency, social distancing measures, and mandated closures. This will help them decide whether the effects of COVID-19 need to be adjusted on the financial statements.
8. If an enterprise concludes the pandemic is an adjusting event, judgment needs to be applied as to which balances are affected and to what extent. For example, if an enterprise has a March 31, 2020, year-end, there may be government-assistance programs announced that became effective after the year-end. Enterprises may consider when the program was announced, when it was approved, the terms of the program, and for what period it is effective to determine if any amounts relating to government assistance should be recognized at year-end.

**What if I determine in the subsequent-event period that my entity is no longer a going concern?**

9. If an enterprise determines in the subsequent-event period that it is no longer a going concern, it should not prepare its financial statements on a going concern basis. ([Paragraph 3820.05](#))
10. Refer to the resource "[Going Concern and Liquidity Risk \(ASPE\)](#)" for details on how to assess an enterprise's ability to continue as a going concern.

## Extracts from relevant ASPEs

Standard	Guidance
Section 3820	<p data-bbox="418 411 1403 558">.03 The period during which subsequent events are considered will depend on the management structure and procedures followed in completing the financial statements. The appropriate cut-off point for subsequent events is a matter of judgment taking into account the particular circumstances and reporting requirements.</p> <p data-bbox="418 579 1365 743">.04 In general, there are two types of subsequent events:            (a) those that provide further evidence of conditions that existed at the financial statement date; and            (b) those that are indicative of conditions that arose subsequent to the financial statement date.</p> <p data-bbox="500 758 1354 814">The extent to which, and the manner in which, the effect of a subsequent event is reflected in the financial statements will depend on its type.</p> <p data-bbox="418 835 1419 982">.05 The effect of subsequent events may be so pervasive, however, that the viability of the whole or a part of the business of the enterprise is brought into question. A rapid deterioration in operating results or financial position after the date of the financial statements may indicate a need to consider whether it is proper to use the going concern assumption.</p> <p data-bbox="418 1003 1377 1121">.07 Financial statements shall be adjusted when events occurring between the date of the financial statements and the date of their completion provide additional evidence relating to conditions that existed at the date of the financial statements.</p> <p data-bbox="418 1142 1382 1451">.07A Financial statements are complete when:            (a) a complete set of financial statements, including all required note disclosures, has been prepared (see GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, paragraphs 1400.10-.11);            (b) all final adjusting journal entries have been reflected in the financial statements (for example, adjustments for income taxes and bonuses);            (c) no changes to the financial statements are planned or expected; and            (d) the financial statements meeting the above requirements have been approved in accordance with the entity's process to finalize its financial statements.</p> <p data-bbox="418 1472 1414 1562">.09 Financial statements shall not be adjusted for those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements.</p> <p data-bbox="418 1583 1409 1801">.10 Disclosure shall be made of those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:            (a) <i>cause significant changes to assets or liabilities in the subsequent period;</i>  <i>or</i>            (b) <i>will, or may, have a significant effect on the future operations of the enterprise.</i></p> <p data-bbox="418 1822 1062 1885">.11 At a minimum, the disclosure shall include:            (a) <i>a description of the nature of the event; and</i></p>

Standard	Guidance
	<p data-bbox="500 289 1393 348"><i>(b) an estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made.</i></p> <p data-bbox="418 359 1414 478">.12 Some events occurring after the financial statement date may have a significant effect, in a subsequent period, on the assets and liabilities or future operations of an enterprise and disclosure could be important to users in their interpretation of the financial statements.</p>