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MARCH 25, 2022

Timing counts: Reporting subsequent events

Major events or transactions — such as a natural disaster, a cyberattack, a regulatory change or the loss of a large business contract — may happen *after* the reporting period ends but *before* financial statements are finalized. The decision of whether to report these so-called "subsequent events" is one of the gray areas in financial reporting. Here's some guidance from the AICPA to help you decide.

Recognition

Financial statements reflect a company's financial position at a particular date and the operating results and cash flows for a period ended on that date. However, because it takes time to complete financial statements, there may be a gap between the financial statement date and the date the financials are available to be issued. During this period, unforeseeable events may happen in the normal course of business.

Chapter 27 of the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities classifies subsequent events into two groups:

1. **Recognized subsequent events.** These provide further evidence of conditions that existed on the financial statement date. An example would be the bankruptcy of a major customer, highlighting the risk associated with its accounts receivable. There are usually signs of financial distress (such as late payments or staff turnover) months before a customer actually files for bankruptcy.

2. **Nonrecognized subsequent events.** These reflect conditions that arise after the financial statement date. An example would be a tornado or earthquake that severely damages the business. A business usually has little or no advanced notice that a natural disaster is going to happen.

Generally, the former must be recorded in the financial statements. The latter events aren't required to be recorded, but the details may have to be disclosed in the footnotes.

Disclosure

To decide which events to disclose in the footnotes, consider whether omitting the information about them would mislead investors, lenders and other stakeholders. Disclosures should, at a minimum, describe the nature of the event and estimate the financial effect, if possible.

In some extreme cases, the effect of a subsequent event may be so pervasive that your company's viability is questionable. This may cause your CPA to re-evaluate the going concern assumption that underlies your financial statements.

When in doubt

If you're unsure how to handle a subsequent event, we can help eliminate the guesswork. Contact us for more information.