AS-4
Contingencies & Event occurring after the Balance Sheet Date

Meaning of

(A) Contingencies: is condition or situation, whose outcome is not known and outcome is based on certain factor which are not under control of entity.

Treatment of contingency

i) Contingent Gains: Such gains, which are not certain should not be reported/ recognised in Financial Statements.

ii) Contingent Losses: Losses will be dealt as follows:

a) Highly probable losses whose amount can be ascertained: Make provision for such loss.

b) Remote probability: This is called business risk and it should not be reported.

c) Other contingent losses: These will be shown as contingent liability. Report should be comprising of amount, facts, and nature of contingency.

As per ICAI AS-4 deals with contingency on assets. It does not deal with provisions for liabilities.

(B) Provisions (AS-29): liability means whose amount is measured using substantial degree of estimation.

Note Liability means:

i) Present obligation arising from past events

ii) Whose settlement is expect to result in outflow of resources and

iii) Which can be measured

Present obligation means whose occurrence is more likely then not.

(C) Contingent Liability (AS-29): means

i) Present obligation, which can not be measured

ii) Possible obligation of any entity (Possible obligations are those expected outflow whose occurrence is not, more likely than not.

Contingent liability will be estimated by

i) Management

ii) Similar transaction in past or

iii) Report of expert

(D) Event occurring after B/S date:

Whenever any event occur after B/S date but before signing of accounts, whose effect is on B/S Assets, such event are called event occurring after B/S date.

Treatment of Events: There are two types of events

a) Adjusting Event

b) Non-adjusting Event

Adjusting events are those events whose contingency was existing on B/S date.

Non Adjusting events are those events whose contingency was not existing on B/S date.

whenever any adjusting event occurs, then provision for such event should be made. Any treatment done for contingency will be cancelled.

Note: If any event occurs which does not support going concern assumption, such event will be adjusted in financial statements and adjustment will not be for loss, but it will be for going concern assumption.

Proposed dividend will be adjusted since it is statutory requirement even if contingency was not existing on B/S date.