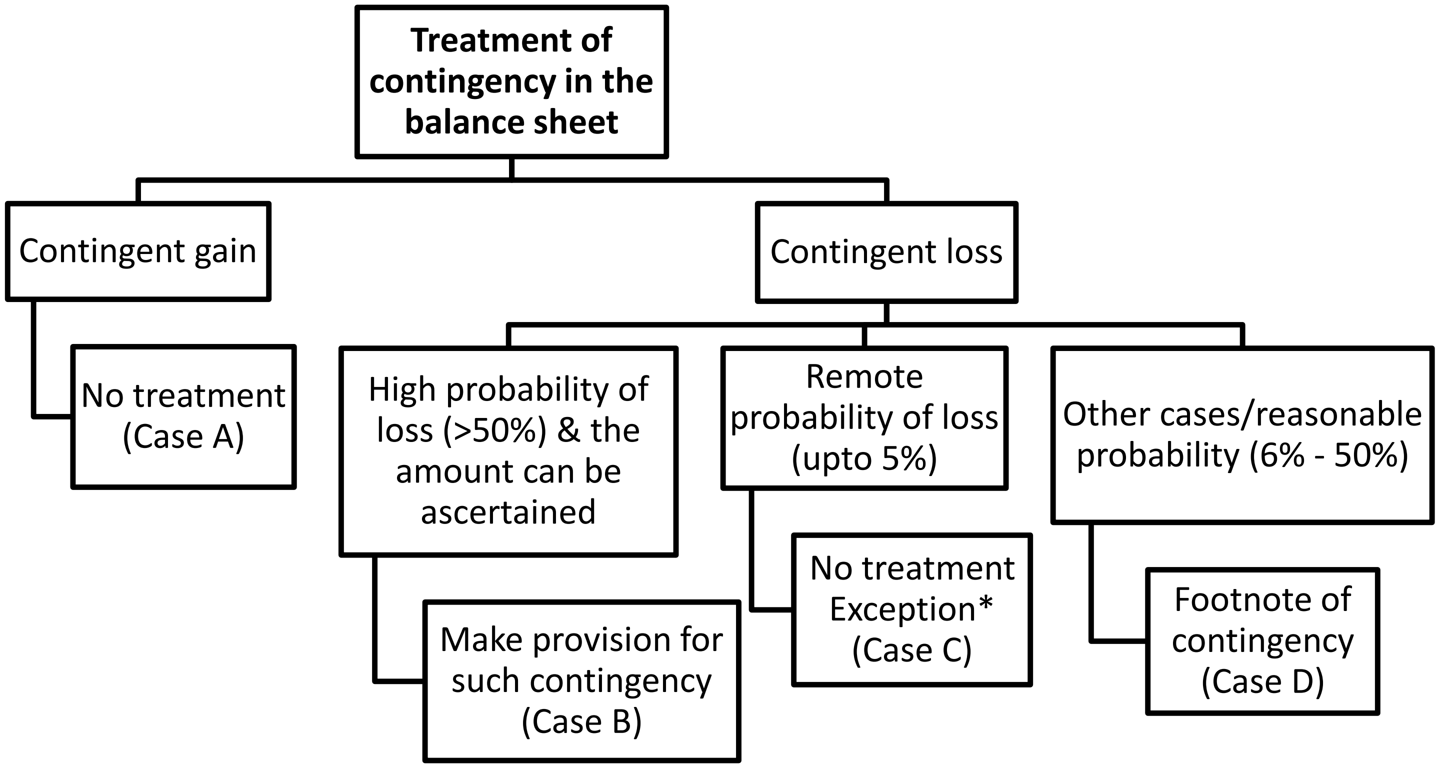
ACCOUNTING STANDARD – 4: CONTINGENCIES & EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

❖ *This AS is mandatory for all entities.*

1. **Meaning of contingency –** Contingency is a situation or condition, whose ultimate outcome is gain or loss, which will be known after occurrence or non-occurrence of one or more uncertain events.



Case A – Contingent gain means gain which are still uncertain & its occurrence depends on future events. Due to concept of conservatism such gains should not be recorded if they are contingent. For e.g. uncertain gain on sale of fixed assets, uncertain government grants, uncertain lottery income etc.

Case B – Whenever there is high probability of expected loss & the amount can be ascertained, then provision for such loss should be made. High probability means chances of occurrence of loss are more than non-occurrence. Management should estimate such probability. If loss is to be recorded, it should be through profit & loss account.

Example – *Ram ltd have following debtors. Show treatment as per AS-4.*

Debtors	***₹***	***Chances of bad-debt***
A	*1,00,000*	*70%*
B	*30,000*	*40%*
C	*50,000*	*100%*
D	*20,000*	*45%*

Solution – *Make provision for doubtful debts on A & C for ₹ 1,50,000*
<u>Journal entry</u> – Profit & loss a/c Dr 1,50,000

To provision for doubtful debt a/c 1,50,000
For debtors B & D, company should give footnote to the balance sheet.

<u>Case C</u> – Whenever there is remote possibility of loss, then such loss is not required to be shown in the balance sheet or outside the balance sheet.
*Exception – Bill discounted is treated as contingent liability & therefore, footnote to the balance sheet is given for the same.

Example – *Ram ltd have following debtors. Show accounting treatment as per AS-4.*

Debtors	***₹***	***Chances of bad-debt***	***Expected bad-debt (₹)***
A	*1,00,000*	*80%*	*50,000*
B	*1,20,000*	*40%*	*70,000*
C	*70,000*	*90%*	*Cannot be calculated*
D	*80,000*	*35%*	*Cannot be calculated*
E	*10,000*	*5%*	*Cannot be calculated*
F	*70,000*	*1%*	*Cannot be calculated*

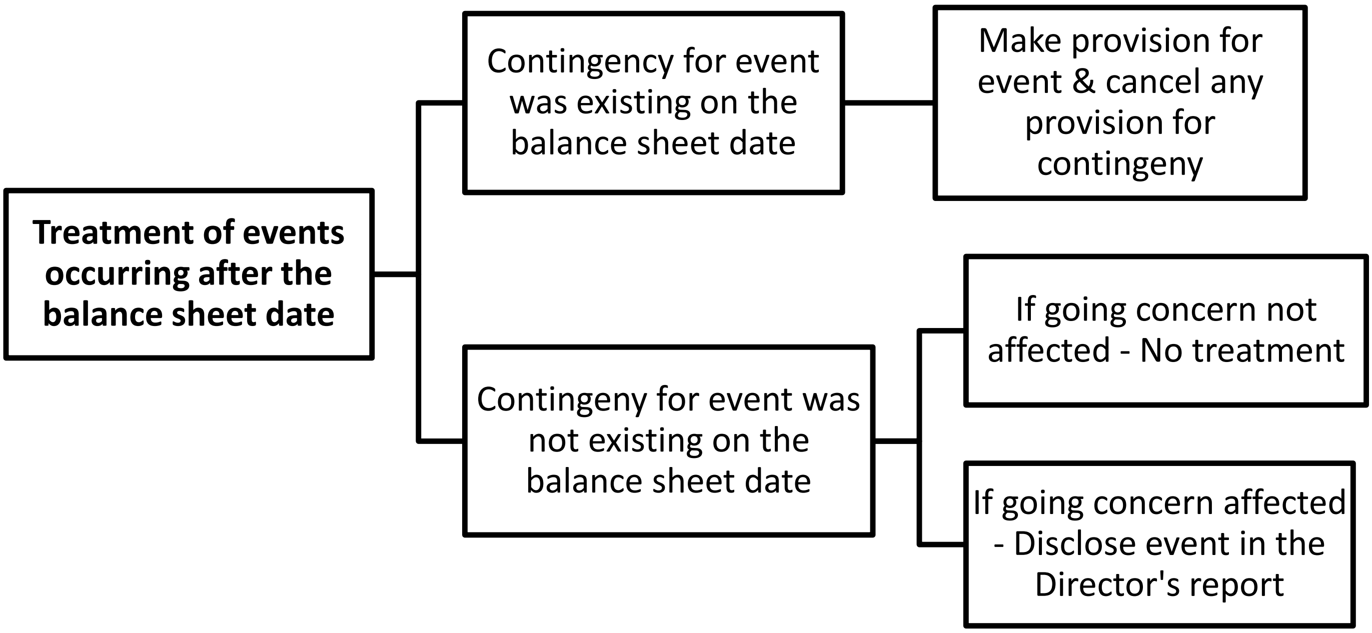
Solution –

Debtors	***Probability***	***Bad-debt (₹)***	***Accounting Treatment***
A	*High*	*50,000*	*Make provision*
B	*Reasonable*	*70,000*	*Footnote*
C	*High*	*Not known*	*Footnote*
D	*Reasonable*	*Not known*	*Footnote*
E	*Remote*	*Not known*	*No treatment*
F	*Remote*	*Not known*	*No treatment*

2. Events occurring after the balance sheet date

Those significant events that occur between the balance sheet date & the date on which the financial statements are approved by the BOD. Events can be of two types-

- Adjusting event, requires adjustment in the financial statements.
- Non-adjusting event, requires disclosure of event in the financial statements.



Example – *Balance sheet date is 31st March 2012 & date of approval of the accounts is 30th June 2012. Show treatment of events as per AS-4.*

Event	*Contingency as on 31st March*	*Going concern*	₹
Bad-debts	*Exist – low probability*	*Not affected*	*1,00,000*
Bad-debts	*Exist – high probability*	*Affected*	*1,00,000*
Court case lost	*Not exist*	*Not affected*	*1,00,000*
Court case lost	*Not exist*	*Affected*	*1,00,000*
Loss by fire	*Not exist*	*Affected*	*1,00,000*
Loss by fire	*Not exist*	*Not affected*	*1,00,000*

Solution –

Event	*Treatment as per AS-4*	₹
Bad-debts	*Make provision for bad-debts*	*1,00,000*
Bad-debts	*Make provision for bad-debts*	*1,00,000*
Court case lost	*No treatment*	–
Court case lost	*Disclose in Director's report*	–
Loss by fire	*Disclose in Director's report*	–
Loss by fire	*No treatment*	–