AS - 4 Contingencies And Events Occurring After The Balance Sheet Date

Introduction

AS-4 Contingencies and Events occurring after the balance sheet date covers accounting treatment of:

- Contingencies and
- Events occurring after the balance sheet date.

Definitions

The following terms are used in this statement with the specified meanings:

- Contingencies-A Contingency is a *condition or situation,* the ultimate outcome of which, *gain or loss,* will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

- Events Occurring After the Balance Sheet Date-Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur *between the balance sheet date and the date on which the financial statements are approved* by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

Two types of events can be identified:

- Adjusting events- those which provide *further evidence of conditions* that existed at the balance sheet date. For example a trade receivable declared insolvent and estate unable to pay full amount against whom provision for doubtful debt was created.

- Non-adjusting events- those which are *indicative of conditions* that arose subsequent to the balance sheet date.

The events occurring after the balance sheet date can be reported either by:

- Making appropriate adjustments in financial statements,
- Through report of approving authority.

Adjusting Events

An event after the balance sheet may require adjustment of reported values of *assets, liability, expenses, income and equity* for the accounting period, if the event is such as toprovide **further evidence of conditions that existed at the balance sheet date. Such events are adjusting events.**

Disclosure

- The disclosure requirements only in respect of those contingencies or events which affect the financial position to a material extent.

- If a contingent loss is not provided for, its nature and an estimate of its financial effect are generally *disclosed by way of note* unless the possibility of a loss is remote. If a reliable estimate of the financial effect cannot be made, *this fact is disclosed.*

- When the events occurring after the balance sheet date are *disclosed* in the report of the *approving authority,* the information given comprises the nature of the events and an estimate of their financial effects or a statement that such an estimate cannot be made.

Non Adjusting Events

- Events after balance sheet date may result from conditions arising subsequent to the balance sheet date. Such *events do not justify change in the reported values of assets, liabilities, expenses, income or equity.*

- Such events, if they represent material changes and commitments affecting financial position of the enterprise, should be *disclosed in the report of approving authority* i.e. Directors’ Report in case of companies and report of corresponding approving authority in case of other entities.

- For example, an announcement after balance sheet date but before approval of financial statement, of a formal plan to discontinue an operation does not justify adjustment of financial statement of the accounting period already over, but is indicative of material change in future. Such events should be disclosed in the report of approving authority.

Exception to rule:

Events indicating going concern assumption inappropriate: As per AS 4 (Revised), an event occurring after the balance sheet date should be an adjusting event even if it does not reflect any condition existing on the balance sheet date, if the event is such as to indicate that the fundamental accounting assumption of going concern is no longer appropriate.

Suppose a fire occurred in the factory and office premises of an enterprise after 31/03/18 but before approval of financial statement of 2017-18. The loss on fire is of such a magnitude that it is not reasonable to expect the enterprise to start operations again, i.e., the going concern assumption is not valid. Since the fire occurred after 31/03/18, the loss on fire is not a result of any condition existing on 31/03/18. In such a case, the entire accounts need to be prepared on a liquidation basis with adequate disclosures.