

Topic : AS - 4

DT.

Accounting standard 4

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

⇒ Accounting treatment of contingency

(a) Losses : If result is loss, then it is prudent to provide for that loss in financial statements.

(b) Gain : Gain are not recognised since their recognition may result in the recognition of revenue, which may never, realised.

⇒ Events occurring after the balance sheet date

Events occurring after the balance sheet date both favourable and unfavourable that occur after the balance sheet date and date of approval of BOD.

Types of events

Adjusting events

These provide further evidence of conditions that existed at balance sheet date

Non-adjusting events

Those which are indicative of condition that arose subsequent to B's date.

⇒ Cases for adjusting and non-adjusting event

31/3/25	30/6/21	= Adjusting event
Court case	Approval	
Provision - SL	Judgement	
	TL	

2° 31/3/25 ————— 30/6/25 = Adjusting event
Electricity bill Actual Bill
Provision = 2L - 1L

3° 31/3/25 ————— 30/6/25 = Non-adjusting event
Debtors Biddelots
6L 6L
will adjust on 25/26

4° 31/3/25 ————— 30/6/25 = non-adjusting event
Goods sold Court Case
 = 1L

5° 30/3/25 ————— 30/6/25 = Non-adjusting event
Fire

Exception: If any accident/event like fire, flood etc affect going concern (means moving towards liquidation) then we will have to adjusting event.

⇒ Business Acquisition of other entity: It is non-adjusting event if negotiation going on. However if agreement signed then adjusting event.

6° 31/3/21 ————— 30/6/21 = Adjusting event
Cash theft

Because on 31/3/21, cash still not be reconciled, it will be adjusting event.

Event occurring after B/s date

Evidence of such condition
been existed at B/s date

Adjusting Event

Adjustment to asset and
liability is required

Disclosure in Financial
statement Required

No Evidence of such condition
been existed at B/s date

Non-adjusting Event

Adjustment to asset &
liability is not Required

Disclosure in report of
approving authority is
Required