CA INTERMEDIATE

MARATHON

Advanced Accounting

AS 4: Contingencies & Events Occurring After Balance Sheet Date

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AS 4: Contingencies and Events Occurring after the Balance Sheet Date

Contingency

Condition or situation, outcome of which gain or loss will be determined on the occurrence or non occurrence of uncertain future events.

Contingency (Related to Asset on B/S Date)

Contingent Losses

If Probable (>50%) → Provide for the loss

Estimation based on Management Judgement

Contingent Gains

Not Recognised

Recognise only when gain virtually certain

Events Occurring after the Balance sheet Date

Those significant events, both favorable and unfavorable that occur between balance sheet date and date on which financial statements (FS) are approved by Board of Directors (BOD)

1/4/25 — FY 2025-26 — 31/3/26 B/S Date — Events occurring after B/S Date — 15/6/26 Date of Approval of FS by BOD

Events occurring after B/S Date:
- Adjusting Events
- Non Adjusting Events

Types of Events

Adjusting Events

Events which provide further/additional evidence relating to conditions existing on B/S date

Adjustment to Assets & Liabilities as at B/S date

Examples

* Debtors suffering losses before B/S date become bankrupt after B/S date
* Settlement of court case after B/S date which started before B/S date

Non Adjusting Events

Events which are indicative of conditions that arose subsequent to B/S date or events which do not relate to conditions existing at B/S date

No Adjustment of Assets & Liabilities
(Disclosure in Report of BOD if Material)

* Decline in Fair value of investments after B/S date
* Loss by fire after B/S date
* Acquisition of company after B/S date for which negotiation started before B/S date

Exception :

Going concern assumption not appropriate

FS to be prepared on Liquidation basis

Special case : Dividend

If declared after B/S date but before FS are approved → No recognition of liability at B/S date. Such dividend should be disclosed in notes.

(Recognise when declared)

CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

AS 4

Question 1:

MEC Limited could not recover an amount of ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company for the year ended 31-3-2025 were finalized by making a provision @ 25% of the amount due from that debtor. In May 2025, the debtor became bankrupt and nothing is recoverable from him.
Do you advise the company to provide for the entire loss of ₹ 8 lakhs in books of account for the year ended 31-3-2025?

Adjusting event

Solution

Company was aware that the debtor was already in a great financial difficulty at the time of closing of accounts. Bankruptcy of the debtor in May 2025 is only an additional information to the condition existing on the balance sheet date.
Therefore, the company is advised to provide for the entire amount of ₹ 8 lakhs in the books of account for the year ended 31st March, 2025.

Question 2:

In Raj Co. Ltd., theft of cash of ₹ 2 lakhs by the cashier in January, 2025 was detected in May, 2025. The accounts of the company were not yet approved by the Board of Directors of the company.
Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2025. Decide.

Condition existing : Theft of cash
Evidence : Detection
Adjusting event

Solution

Though the theft, by the cashier ₹ 2,00,000, was detected after the balance sheet date (before approval of financial statements) but it is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date.
Therefore, it is necessary to make the necessary adjustments in the financial statements of the company for the year ended 31st March, 2025 for recognition of the loss amounting ₹ 2,00,000.

Question 3:

An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2025. The value of land is shown at ₹ 20 lakh in the Balance Sheet. However, the Sale Deed was registered on 15th April, 2025.

Agreement to sell & Registry
Adj. event

Solution

Agreement to sell was effected on 1st March, 2025 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2025, simply provides additional information relating to the conditions existing at the balance sheet date.
Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2025.

Question 4:

X Ltd. sends a proposal to purchase an immovable property for ₹ 30 lakhs in March. The book value of the property is ₹ 20 lakhs as on year end date. However, the deed was registered as on 15th April.

Solution

In the given case, proposal for deal of immovable property was sent before the closure of the books of accounts. This is a non-adjusting event as only the proposal was sent and no agreement was effected in the month of March i.e. before the balance sheet date.

Question 5:

The negotiation with another company for acquisition of its business was started on 2nd February, 2025. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2025.

Solution Non Adjusting event

No adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2025.

Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2025 in the acquisition of another company should be disclosed in report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

Question 6:

The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was ₹ 40 lakhs.

Adjusting event

Solution

As the term and conditions of acquisition of business of another company had been decided by the end of March, acquisition of business is an adjusting event occurring after the balance sheet date. Adjustment to assets and liabilities is required since the event affects the determination and the condition of the amounts stated in the financial statements for the financial year ended on 31st March.

Question 7:

During the year 2024-2025, Raj Ltd. was sued by a competitor for ₹ 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of ₹ 10 lakhs in its financial statements for the year ended 31st March, 2025. On 18th May, 2025, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of ₹ 14 lakhs. The financial statements were prepared by the company's management on 30th April, 2025, and approved by the board on 30th May, 2025.

Should Raj Ltd. adjust its financial statements for the year ended 31st March, 2025?

Solution Adjusting Event

In the given case, since Raj Ltd. was sued by a competitor for infringement of a trademark during the year 2024-25 for which the provision was also made by it, the decision of the Court on 18th May, 2025, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Raj Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

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Question 8:

An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2025. The accounting year of the company ended on 31.3.2025. The accounts were approved on 30.6.2025. The loss from earthquake is estimated at ₹ 25 lakhs.

State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

Solution

Case (a): If going concern assumption is not Valid Adj. event

Since the fire occurred after 31/03/25, the loss on fire is not a result of any condition existing on 31/03/25. But the loss due to fire is an adjusting event the entire accounts need to be prepared on a liquidation basis with adequate disclosures by the company by way of note in its financial statements in the following manner:

"Major fire occurred in the warehouse on 30th April, 2025 which has made impossible for the enterprise to start operations again. Therefore, the financial statements have been prepared on liquidation basis."

Case (b): If going concern assumption is still Valid Non Adj. event

The fact of earthquake together with an estimated loss of ₹ 25 lakhs should be disclosed in the repot of the approving authority for the financial year 2024-2025.

Cheque in hand
To Trade Rec.

Question 9:

Neel Limited has its corporate office in Mumbai and sells its products to stockists all over India. On 31st March, 2025 the company wants to recognize receipt of cheques bearing date 31st March, 2025 or before, as "Cheques in Hand" by reducing "Trade Receivables". The "Cheques in Hand" is shown in the Balance Sheet as an item of cash and cash equivalents.

All cheques are presented to the bank in the month of April 2025 and are also realized in the same month in normal course after deposit in the bank.

State with reasons, whether each of the following is an adjusting event and how this fact is to be disclosed by the company, with reference to the relevant accounting standard

(i) Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2025.

(ii) Cheques sent by the stockists through courier on or before 31st March, 2025.

Solution

(1) Cheques collected by the marketing personnel of the company is an $\boxed{\text{adjusting event}}$ as the marketing personnels are employees of the company and therefore, are representatives of the company. Handing over of cheques by the stockist to the marketing employees discharges the liability of the stockist. Therefore, cheques collected by the marketing personnel of the company on or before 31st March, 2025 require adjustment from the stockists' accounts i.e. from 'Trade Receivables A/c' even though these cheques (dated on

or before 31st March, 2025) are presented in the bank in the month of April, 2025 in the normal course. Hence, collection of cheques by the marketing personnel is an adjusting event as per AS 4 'Contingencies and Events Occurring after the Balance Sheet Date'. Such 'cheques in hand' will be shown in the Balance Sheet as 'Cash and Cash equivalents' with a disclosure in the Notes to accounts about the accounting policy followed by the company for such cheques.

(2) Even if the cheques bear the date 31st March or before and are sent by the stockists through courier on or before 31st March, 2025, it is presumed that the cheques will be received after 31st March. Collection of cheques after 31st March, 2025 does not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.

Question 10: RTP Sep 2024

For five companies whose financial year ended on 31st March, 2023, the financial statements were approved by their approving authority on 15th June, 2023.

During 2023-2024, the following material events took place:

a. A Ltd. sold a major property which was included in the balance sheet at ₹ 1,00,000 and for which contracts had been exchanged on 15th March, 2023. The sale was completed on 15th May, 2023 at a price of ₹ 2,50,000.
b. On 30th April, 2023, a 100% subsidiary of B Ltd. declared a dividend of ₹ 3,00,000 in respect of its own shares for the year ended on 31st March, 2023.
c. On 31st May, 2023, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to ₹ 2.5 million.
d. On 1st July, 2023 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for. which there would be no corresponding recovery from the customer.
e. A fire, on 2nd April, 2023, completely destroyed a manufacturing plant of E Ltd. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company.

You are required to state with reasons, how each of the above items numbered (a) to (e) should be dealt with in the financial statement of the various companies for the year ended 31st March, 2023.

Solution

Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	A Ltd.	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2023 and the profit on sale of property ₹ 1,50,000 would be recognised.
(b)	B Ltd.	The declaration of dividend on 30th April, 2023 of ₹ 3,00,000 would be treated as a non-adjusting event in the financial statements of 2022-2023. This is because, the dividend has been declared after the balance sheet date and no conditions existed on the balance sheet date for such declaration of dividend. Further as per AS 9, right to receive dividend is established when it is declared and not before that.

(c)	C Ltd.	A closure not anticipated at the year-end would be treated as a non-adjusting event. Memorandum disclosure would be required for closure of mail order activities since non-disclosure would affect user's understanding of the financial statements.
(d)	D Ltd.	The event took place after the financial statements were approved by the approving authority and is thus outside the purview of AS 4. However, in view of its significance of the transaction, the directors may consider publishing a separate additional statement for the attention of the members in general meeting.
(e)	E Ltd.	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

Question 11: RTP May 2025 / RTP May 2022

Smart Ltd. closes its books of accounts every year on 31st March. The financial statements for the year ended 31 March 2024 are to be approved by the approving authority on 30 June 2024. During the first quarter of 2024-2025, the following events / transactions has taken place. The accountant of the company seeks your guidance for the following:

(i) Smart Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31 March 2024. On 31 March 2024 the company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2024, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine.

(ii) A fire has broken out in the company's godown on 15th April 2024. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.

(iii) The company has entered into a sale agreement on 30th March 2024 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2024 when conveyance and possession get completed.

(iv) The company has received, during the year 2022-2023, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15 June, 2024 due to violation of some of the conditions of grant during the year 2023-2024.

(v) A suit against the company's advertisement was filed by a party on 10th April, 2024 10 days after the year end claiming damages of ₹ 20 lakhs.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31st March 2024

Solution

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.

Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate. In the given case, financial statements are approved by the approving authority on 30 June 2024. On the basis of above principles, following will be the accounting treatment in the financial statements for the year ended at 31 March 2024:

Adj.

(a) Since on 31 March 2024, Smart Ltd. was expecting a heavy decline in the demand of the stitching machine. Therefore, decline in the value during April, 2024 will be considered as an adjusting event. Hence, Smart Ltd. needs to adjust the amounts recognized in its financial statements w.r.t. net realisable value at the end of the reporting period. Accordingly, inventory should be written down to ₹ 4,000 per machine. Total value of inventory in the books will be 50 machines x ₹ 4,000 = ₹ 2,00,000.

Non Adj.

(b) A fire took place after the balance sheet date i.e. during 2024-2025 financial year. Hence, corresponding financials of 2023-2024 financial year should not be adjusted for loss occurred due to fire. However, in this circumstance, the going concern assumption will be evaluated. In case the going concern assumption is considered to be appropriate even after the occurrence of fire, no disclosure of the same is required in the financial statements.

Non Adj

(c) Since the transfer of risk and reward and sale was complete in the month of May, 2024 when conveyance and possession got complete, no revenue should be recognised with respect to it in the financial statements of 2023-2024. However, a disclosure for the same should be given by the entity.

Adj.

(d) Since the notice has been received after 31 March but before 30 June 2024 (approval date), the said grant shall be adjusted in the financial statements for financial year 2023-2024 because the violation of the conditions took place in the financial year 2023-2024 and the company must be aware of it.

(e) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.