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VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI

FOUNDATION LEVEL
PAPER 1: PRINCIPLES AND PRATICE OF ACCOUNTING

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CHAPTER 1- THEORETICAL FRAMEWORK

- There are 9 units in total for this chapter
- This chapter mainly deals with the theory part and introduction to the accountancy subject.
- What is Accounting- purpose and methodology, branches in accounting- the principles/conventions/concepts, the distinction between capital and revenue transactions, the Accounting standards and Ind AS.
- All of the above which form an initial base for understanding the concept in depth have been combined together to understand the entire concept in brief.
- Examination point of approach- Each chapter will have discussion of the past examination question papers at the end along with the MCQ's.

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Unit 5-Contingent Assets and Contingent Liabilities

- Contingency refers to the condition of happening or non-happening of an event. The Assets (inflow of money) or the liabilities (outflow of money) dependent on the happening or non-happening of an event- are termed as contingent assets and liabilities.
- **Contingent Assets-** Possible inflow of benefit to the organization based on the past events and which will be confirmed only after the occurrence or non occurrence of a future event which is not under the control of the business. For ex- Claim which is pursued by a company- in which case an asset will be acquired if the case is won.
- As per concept of prudence, the asset cannot be recognized until actually realized. This is not disclosed in the balance sheet but is given in the report of the Board of Directors mentioning the existence of such contingent assets and the probability of the asset.
- **Contingent Liabilities-** Possible obligation which involves outflow to the firm arising from past events and which will be confirmed only upon the occurrence or non occurrence of a future event which is not under the control of the business.

Unit 5-Contingent Assets and Contingent Liabilities

- **Contingent Liabilities-** can also be Present obligation which involves outflow to the firm arising from past events but will not be recognized since-
  - It is not probable that there will be outflow of economic resources
  - Reliable estimate of the amount cannot be made.
- Hence the Contingent liabilities can be both probable and present too. They cannot be disclosed in the balance sheet but given as notes to accounts to meet the disclosure requirements.
- Difference between contingent liabilities and actual liabilities- Liability is a present obligation arising from past events. Not probable but the amount is exact. This is disclosed in the balance sheet.
- Difference between contingent liabilities and provisions- Provision is a present liability of uncertain amount but which can be measured using substantial degree of estimation. Example of penalty for violation of provisions of any act. If company is sure that they have to pay then they will recognize it as a provision if not then it will recognized as contingent liability.

THANK YOU

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