

# Contingent Assets and Contingent Liabilities

## Contingent liability :

Contingent liability is a liability which may or not arise in the future depending on the occurrence or non occurrence of certain events. It can be confirmed only when a future event may or may not arise. It is not an actual liability. It is not a recorded liability. It is to be shown in the financial statements as a foot note.

E.g. When a bill is discounted with the Bank till the due date of the Bill, the discounted bill is a Contingent liability as if on the due date the bill is dishonoured then the Bank will hold the Drawer liable for the Bill amount, uncalled liability on partly paid shares arrears of preference dividend. Claims against the company not acknowledged as debts.

## Contingent Assets :

A contingent asset is an asset that arises from past events and which can whose existence be confirmed only after future events. As per the concept of prudence an enterprise should not recognize a contingent asset. A contingent asset need not be disclosed in the financial statements but it should be disclosed in the report of Board of Directors.

## Provision :

Provision is a present liability of uncertain amount which is measured using estimation.

Eg. : Provision for Depreciation, Provision for bad debts etc.