

IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

IAS 37 Provisions, Contingent Liabilities and Contingent Assets**Scope**

IAS 37 shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except :

- ❖ Nononerous executory contracts
- ❖ Those covered by other IFRSs:
 - IAS 11 Construction Contracts
 - IAS 17 Leases
 - IFRS 4 Insurance Contracts

IAS 12 Income Taxes
IAS 19 Employee Benefits

Definitions

- ❖ Provision : liability of uncertain events
- ❖ Liability: Present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources which can be measured
- ❖ Contingent liability: Possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably
- ❖ Contingent asset:: a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity.

Recognition**Contingent Liability**

- ❖ Contingent liabilities are not recognised.

Contingent Assets

- ❖ Contingent Assets are not recognised.

Provision

- Recognize the provision if all conditions are satisfied:
1. Entity should have present legal and constructive obligation to settle in economic resources arising due to past events(i.e. we have no option but to settle it)
 2. Probable that outflow of resources will be made
 3. It can be reliably measured

Provision : Measurement

Measurement of provisions should be based on following :

- ❖ Based on past experience, history or report of experts
- ❖ Amount calculated
 - Large population of similar cases : Expected value method (loss amount expected *probability of loss*no of cases)
 - Single : Most likely loss should be provision
- ❖ Recovery : gain or profit from transaction or contract No treatment
- ❖ Reimbursement : virtually certain : make net provision
- ❖ Other make provision for full amount. Expected reimbursement will be contingent asset

Special Cases

- ❖ Onerous (Loss making) Contract : If Cost > Profit , Make Provision
- ❖ Business Restructuring , Discontinued operations Relocation etc. : Make Provisions (In expenses of restructuring do not take operating loss, staff training or vretaining, gain or loss, expenses for future.). Also it is to be checked that announcement of restructuring is made
- ❖ Environment damage : If done in the past now to be rectified – make provision
- ❖ Overhaul of PPE in future : Provision not recorded
- ❖ Offshore oil rig must be removed and sea bed restored :Recognize a provision for removal costs arising from the construction of the the oil rig as it is constructed, and add to the cost of the asset.
- ❖ Customer refunds: Recognize a provision if the entity's established policy is to give refunds
- ❖ Warranty: When an obligating event occurs.

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