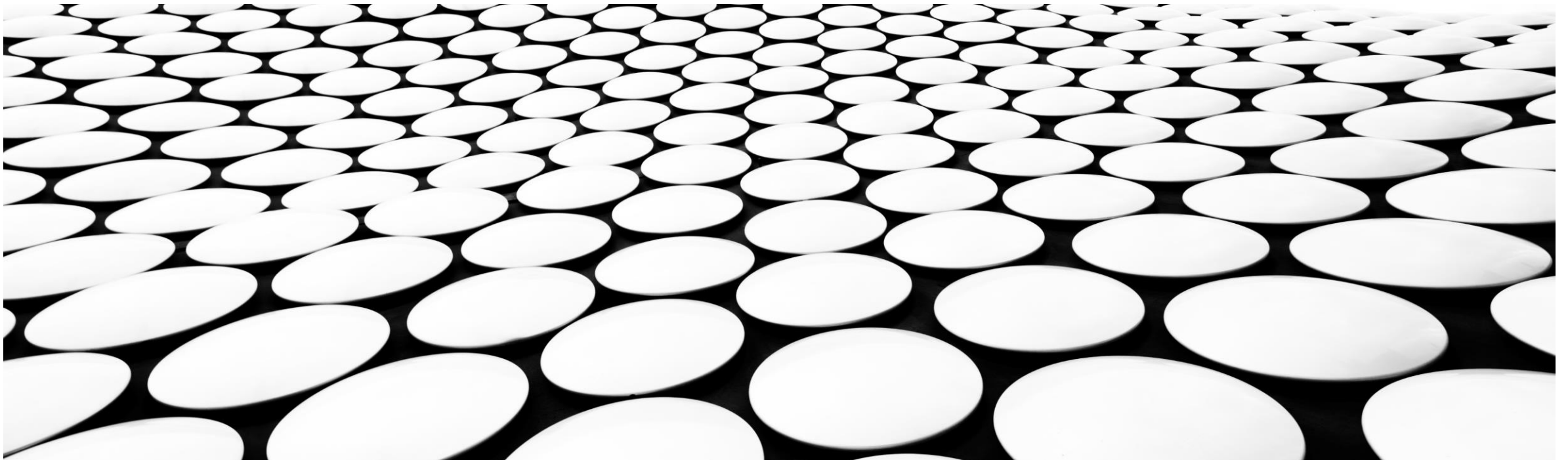

INTERNATIONAL FINANCIAL REPORTING STANDARDS PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37)

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*





PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37)

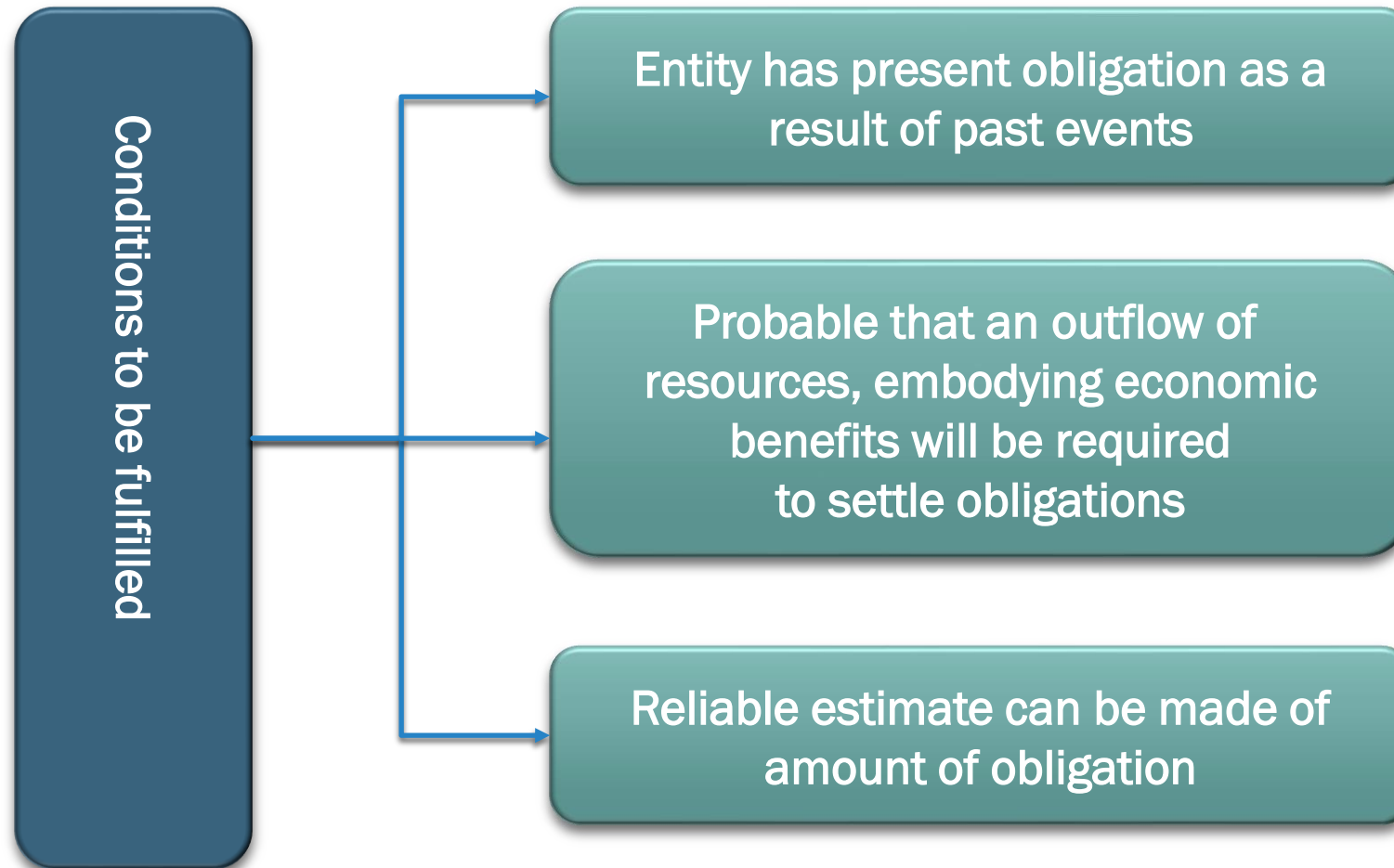
PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

ITEM	DEFINITION
<i>What is provision?</i>	Provisions are liabilities of uncertain timing or amount

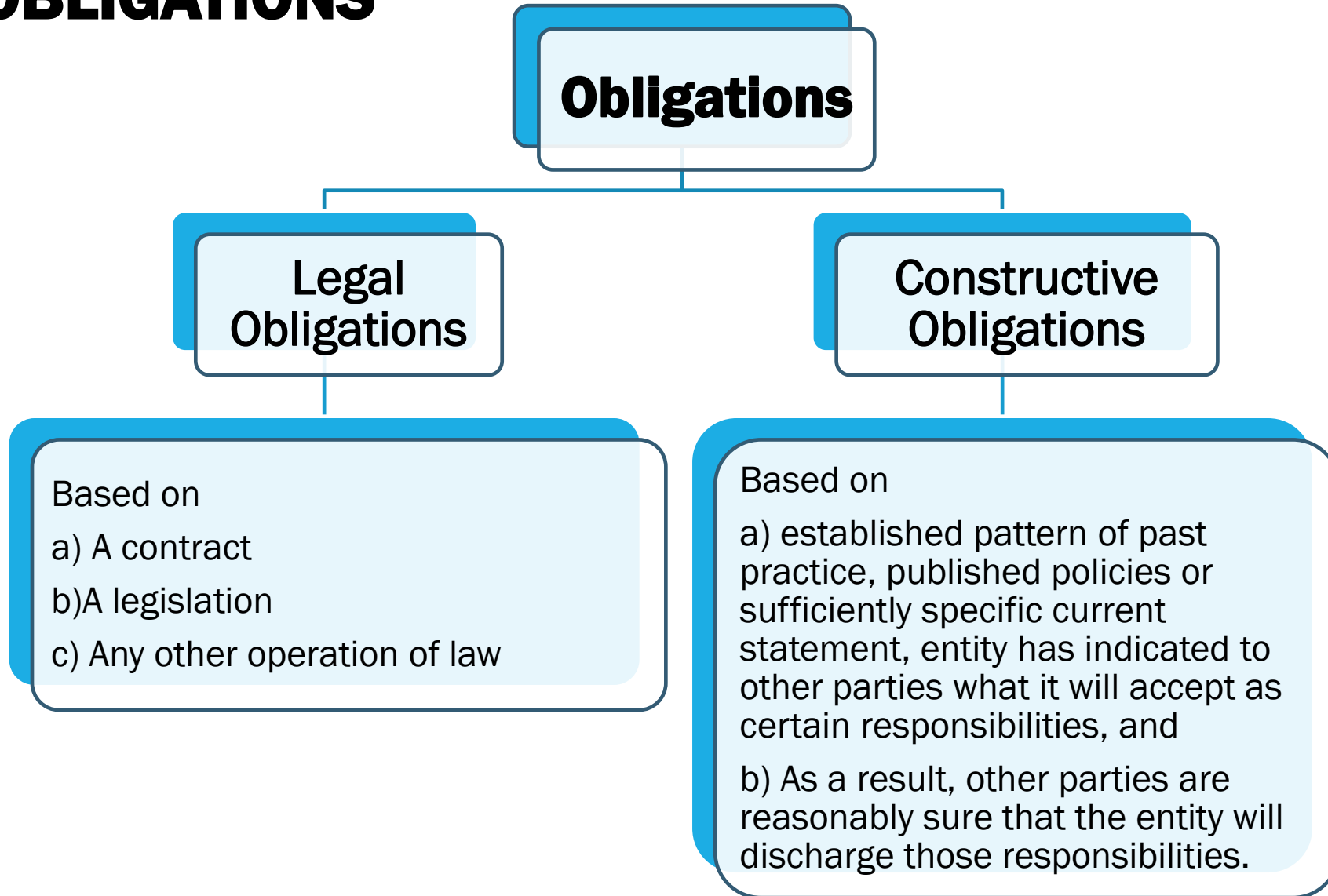
PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

ITEM	RATIONALE
<i>What was the necessity of this Standard?</i>	<p>The necessity of an accounting standard on provisions was owing to:</p> <ul style="list-style-type: none">• Ensure essential to rule out the potential for companies to manipulate the results• Ensure that unintentional errors in accounting for provisions are eliminated• Ensure provisions are made on valid grounds• Ensure provisions of the correct amount are made.• Ensure provisions are not included / excluded in order to manipulate financial results.

PROVISIONS – IAS 37



OBLIGATIONS



PROVISIONS

- A constructive obligation arises from the entity's actions , through which it has indicated to others that it will accept certain responsibilities and as a result has created an expectation that it will discharge those responsibilities
- A constructive obligation to restructure arises only when an entity –
 - has a detailed formal plan for restructuring and
 - has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing the impact of the plan on those affected by it.
- Provisions are not recognized for future operating losses .

ACCOUNTING FOR PROVISIONS

Journal entry to account for provision:

Dr	Expense (transferred to SOCI)	X	
	Cr	Provision for expense (reflected in SOFP)	X

Being expense provided for

The journal entry to be made when actual payment is to be made:

Dr	Provision for expense (reflected in SOFP)	X	
	Cr	Bank	X

Being payment made for an expense provided earlier

Changes in provisions

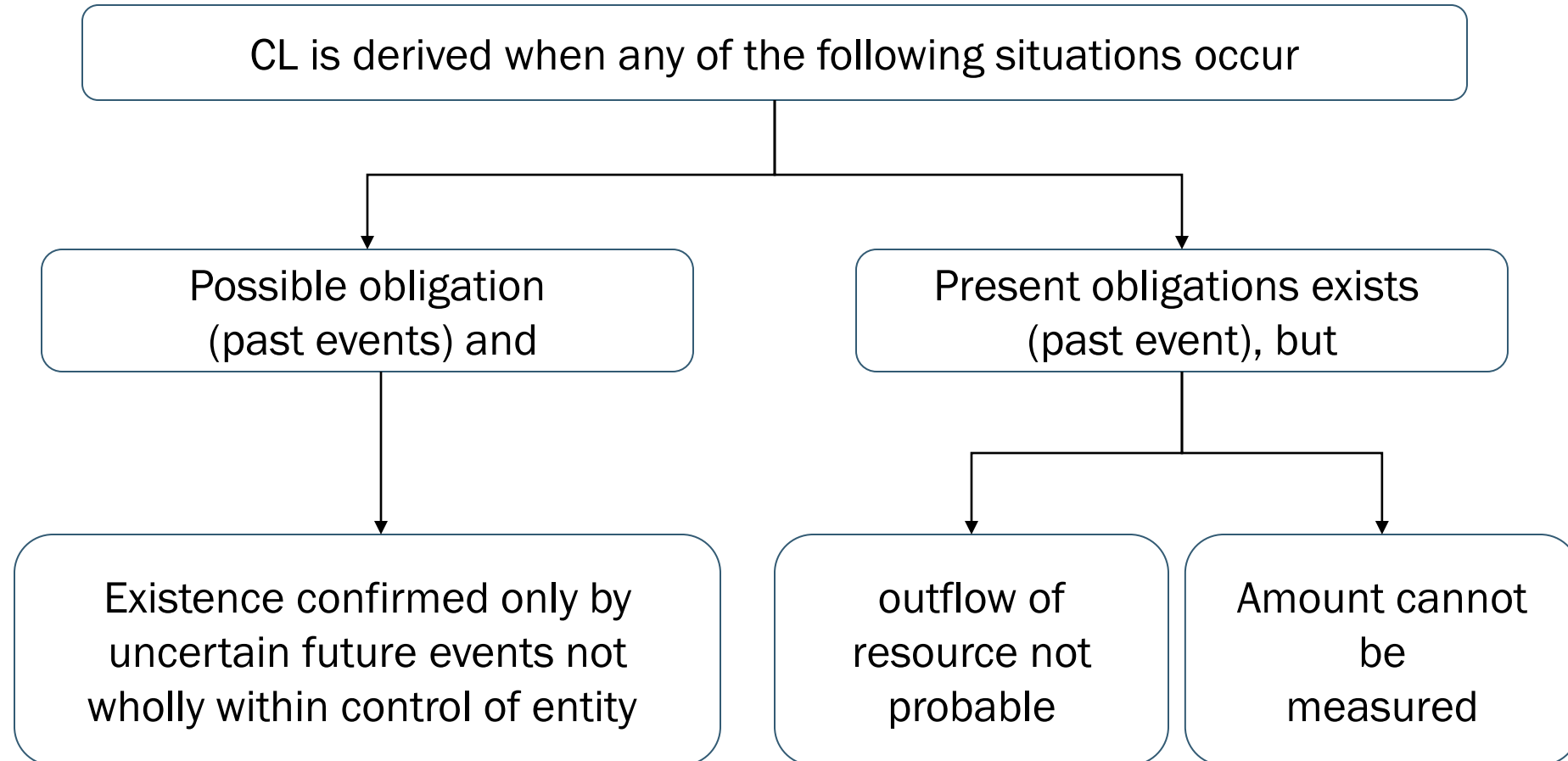
Provisions are reassessed at each reporting period and are adjusted to reflect current best estimate.

Provision will be reversed if it is no longer probable that outflow of resources embodying economic benefits will be required to settle the obligation.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- A contingent liability is not recognized but is disclosed unless the possibility of an outflow of resources is remote
- A contingent asset is not recognized but is disclosed when an inflow of economic benefits is probable
- **Ind AS 37 specifies disclosures of provisions, contingent liabilities and contingent assets**

CONTINGENT LIABILITIES (CL)



CONTINGENT ASSET (CA)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non – occurrence of one or more uncertain future events not wholly within the control of the entity.

ONEROUS CONTRACTS (OC)

OC: contract in which unavoidable costs of meeting obligations exceed economic benefits expected to be received.

Liabilities derived from
OC has to be provided
for as



They fulfill at three
recognition criteria

ACCOUNTING TREATMENT OF ONEROUS CONTRACT

At the time of making a provision:

Dr	Expenses (transfer to SOCI)	X	
	Cr	Provision to expenses (reflected in SOFP)	X

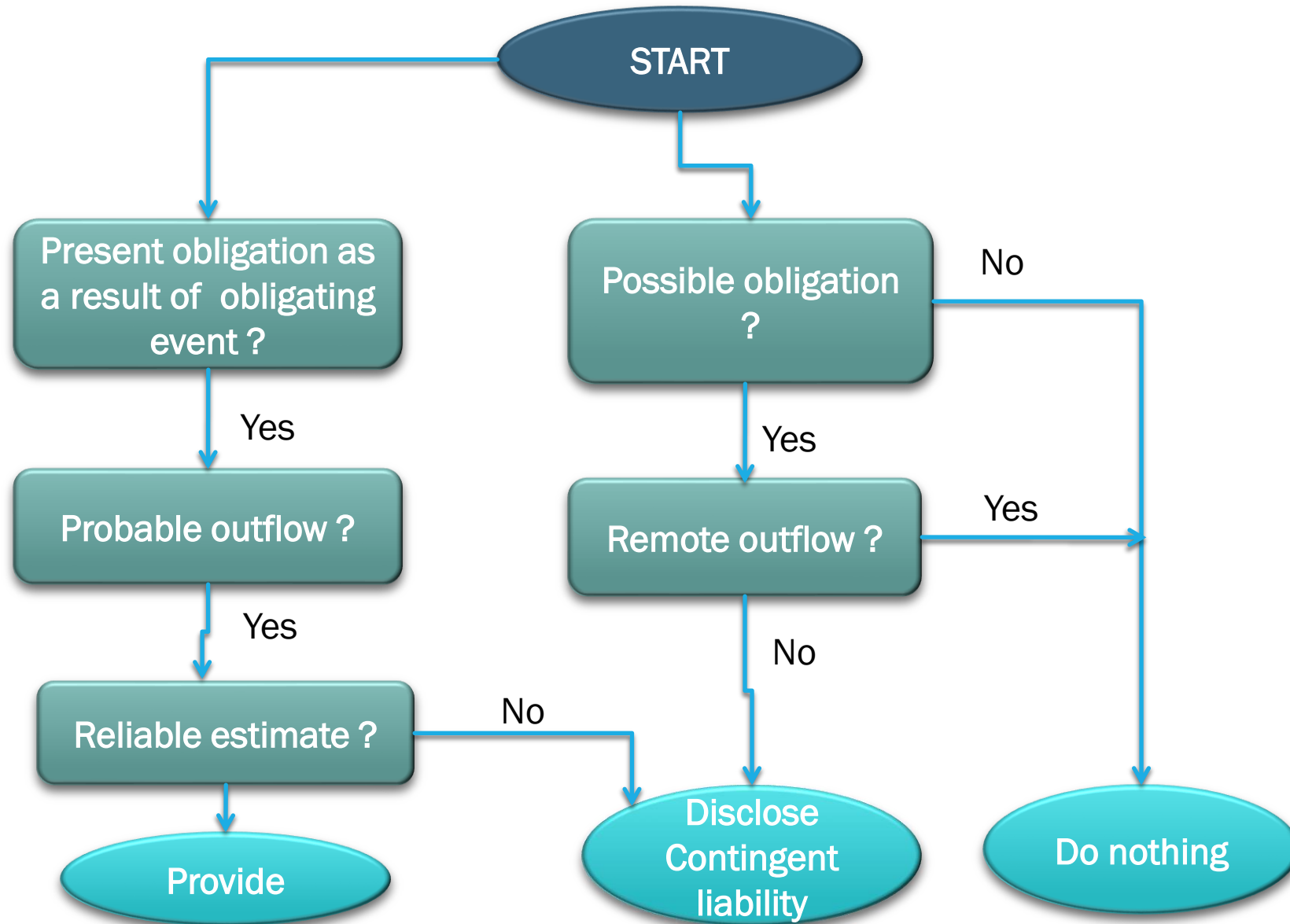
Being provision made for expenses

At the time of making payment:

Dr	Provision for expenses	X	
	Cr	Bank	X

Being amount paid for fulfillment of contract

PROVISIONS, CONTINGENT LIABILITIES – DECISION TREE



PROVISIONS AND CONTINGENCIES

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Provisions-general	Provisions related to present obligations from past events recorded if outflow of resources is probable and can be reliably estimated. Discounting of provision is not permitted.	Provisions related to present obligations from past events recorded if outflow of resources is probable and can be reliably estimated. Provisions are discounted to present value where the effect of the time value of money is material	Similar to IFRS, with rules for specific situations such as environmental liabilities, loss contingencies etc.

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Contingencies	Contingent liabilities are disclosed unless the probability of outflows is remoted. Contingent gains are neither recognized not disclosed	Unrecognized possible losses and probable gains are disclosed.	Similar to IFRS



THANK YOU!