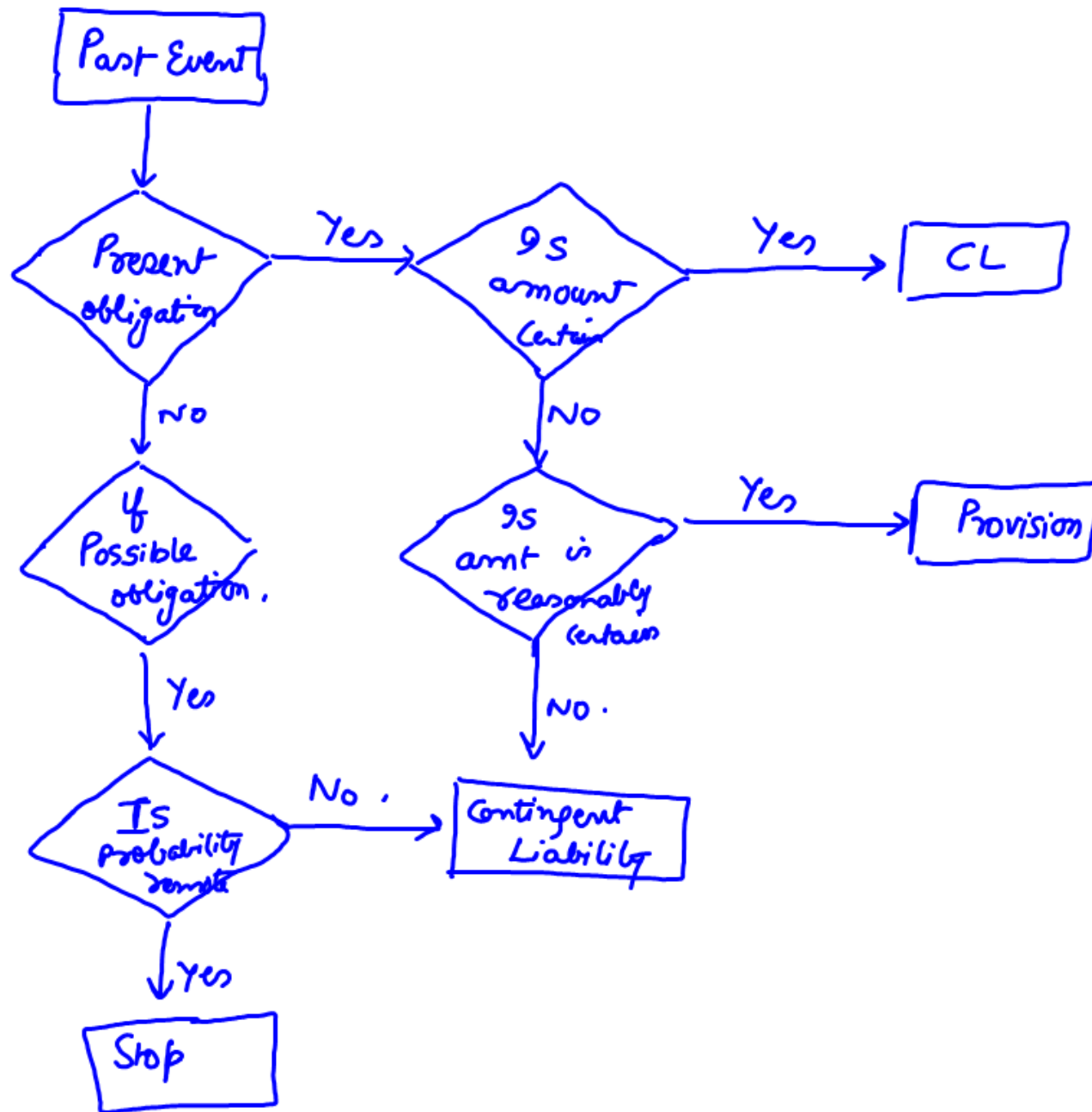


AS-29

Provisions, Contingent liabilities & Contingent
assets.

Obligation:



Recognition

◆ Provisions

A provision should be recognised when:

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

◆ *If these conditions (cumulative conditions) are not met, no provision should be recognised.*

DEFINITIONS

- *A provision is a liability which can be measured only by using a substantial degree of estimation.*
- *A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.*
- *An obligating event is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.*

Cont...

RECOGNITION

○ Provisions

A provision should be recognised when:

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable ^{to have} that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

○ *If these conditions (cumulative conditions) are not met, no provision should be recognised.*

MEASUREMENT

- Best Estimate

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value. (PVF)

- Risks and Uncertainties

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

Definitions

- *Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.*

- *A restructuring is a programme that is planned and controlled by management, and materially changes either:*
 - (a) the scope of a business undertaken by an enterprise; or*
 - (b) the manner in which that business is conducted.*

DISCLOSURE

- For each class of provision, an enterprise should disclose:

(a) the carrying amount at the beginning and end of the period;

(b) additional provisions made in the period, including increases to existing provisions;

(c) amounts used (i.e. incurred and charged against the provision) during the period; amount charged against provision
and

(d) unused amounts reversed during the period.

○ *Unless the possibility of any outflow in settlement is remote, and enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:*

(a) an estimate of its financial effect, measured under measurement;

(b) an indication of the uncertainties relating to any outflow; and

(c) the possibility of any reimbursement.

- Future Events

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision if where there is sufficient objective evidence that they will occur.

- Expected Disposal of Assets

Gains from the expected disposal of assets should not be taken into account in measuring a provision.

Definitions

- *A contingent liability is:*

*(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; **or***

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made.

op Prov

10000

P&L

25000.

 addⁿ

loss related

(9000)

 Exp charged.

cl bal

26000.

↓ 1000 w/o

25000