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LKAS 37 Provisions, Contingent Liabilities (Cl) And Contingent Assets (Ca)

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1. Objective

- Provide guidance for recognition and measurement of provision, CL & CA
- Disclosure guidance

2. Definitions

- A provision is a liability of uncertain timing or amount
- Liability – Present obligation, Due to past event & Settlement will result in outflows
- Obligating event – create legal or constructive obligation
- Legal obligation arises due to law
- Contractive obligation arises due to statement and trough discharging it.

3. Examples

- Warrantee provision
- Decommission provision
- Dismantling provision
- Legal provision
- Provision for environmental cost

4. Recognition of provision

- Present obligation (PO)
- Outflow to settlement obligation
- Estimate can be made

5. Measurement of provision

- We need to make the best estimate using most likely or expected value based.
- If time value of money is material take the present value and adjust the interest for future periods
- PV = FV /(1+r)n
- FV = PV + (1+r)n
- Difference is interest
- Double Entries
- Dr. Exp or Assets
- Cr. Provision
- No Provision for overhaul
- If we can reimburse surely then we can recognize an asset
- Provision should be reviewed annual & if no longer required reveres
- No provision for future operating losses

6. CL

- a possible obligation 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.
- Contingent Liabilities are disclosed only
- present obligation that arises from past events but is not recognized because,
- not probable outflow or reliable estimate if difficult to make

7. 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.

- Contingent Assets are disclosed only

8. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. We need to recognized a provision for such contracts.