IND AS-37 :- Provision, Contingent liability & Contingent Assets

Topic to be Cover

1. objective (Done)
2. Scope (Done)
3. Definition (Done)
4. Provision (Done)
5. Contingent liability (Done)
6. Contingent Asset (Done)
7. Reimbursement (Done)
8. Onerous Contract (Done)
9. Restructuring. (Done)
10. Future operating losses (Done)

objective

The objective of this standard is to ensure that appropriate

→ Recognition Criteria

→ Measurement

→ Discloser

To enable users to understand their Nature, timing and Amount

Scope

This standard shall be Applied by All entity in Accounting for provision, Contingent liabilities & Assets EXCEPT

1. Executory Contract
2. onerous Contract
3. those Covered by other AS (Eg: IND AS 12, 17, 19, 103, 104, 105).

Definitions

1. Liability

A liability is a $\boxed{\text{PRESENT OBLIGATION}}$ of the entity arising from the $\boxed{\text{PAST EVENTs}}$, the settlement of which is expected to result in an $\boxed{\text{OUTFlow}}$ from the entity of resources

2. Obligation Event

An obligation event is an event that create a legal or constructive obligation that result in an entity having no realstic alternative to settling the obligation

Obligation

A legal obligation

A legal obligation is on obligation that drive from

- → A Contract [Explicit & Implicit term]
- → Legislation; or
- → other operation of law

Constructive obligation

A Constructive obligation is an obligation that derive from an entity's action where:-

- → by an established pattern of past practice, published policies or a sufficiently specfic current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- → as a result, the entity has created a valid Expecation on the part of those other parties that it will discharge those Responsibilty.

Provision

- Definition
- Recognition
- Measurement
- Change in Provision
- Use of provision
- Accounting

Definition of provision

It is a liability with uncertain Amount or Timing.

[Jab Hum paise save Future liab ko pay krne ke lie Pay liability kitne Amount ki hogi kab hogi (timing) vo uncertain ho]

Recognition of provision

A provision shall be Recognition only when

- A entity has a Present obligation [legal or Constructive] as a Result of a PAST EVENT
- It is probable that an OUTFLOW OF RESOURCES will be Requried
- An Reliable Estimation Can be made.

$\boxed{\text{If these 3 Condition are not met provision shall not be Recognised}}$

Measurement of provision

A) BEST ESTIMATE

B) PRESENT VALUE

C) RISK AND UNCENTAINTES

D) FUTURE EVENT

E) EXPECTED DISPOSAL OF ASSET

BEST ESTIMATION

The Amount of provision should be Best Estimation

Case-1

Large Number of items

Probability Method

Ex Customer Refund, warranty claim etc

Case-2

When there is a single items

(Consider most likely out come)

b) PRESENT VALUE

① Only when time value of money is material the Amount of provision should be at Present Value

② Discounting factor will be pre tax

c) RISK & UNCERTAINITIES

All risk & uncertainities that would Resulting in Increase in the Amount of provision, should be taken into Account while measuring the provision.

Ex Samsung Phone Blast

d) FUTURE EVENTS

Future event that may affect the Amount of Provision, should be Considered only when there is sufficient objective evidence available that they will occurs.

e) EXPECTED DISPOSAL OF ASSET

No provision for gain or Expected disposal of Asset is Recognised

Ex 1 Calculating the Amount of provision for Repair (by probability method)

$$\Rightarrow \left[\begin{array}{l} 75\% \text{ for} \\ \text{No defect} \end{array} \times 0 \text{ (cost)} \right] + \left[\begin{array}{l} 20\% \text{ for} \\ \text{minnor defect} \end{array} \times 100{,}000 \left(\begin{array}{l} \text{cost} \\ \text{of All product} \end{array} \right) \right] + \left[\begin{array}{l} 5\% \text{ of} \\ \text{Major defect} \end{array} \times 400000 \left(\begin{array}{l} \text{cost} \\ \text{of All product} \end{array} \right) \right]$$

$$\Rightarrow 75\% \text{ of } 0 + 20\% \text{ of } 100{,}000 + 5\% \text{ of } 400{,}000$$

$$\Rightarrow 0 + 20{,}000 + 20{,}000$$

$$\Rightarrow \boxed{40{,}000}$$

Ex = 2

$$\text{Amount} = \text{Principle}\left(1 + \frac{\text{rate}}{100}\right)^n$$

$$\boxed{A = P\left(1 + \frac{r}{100}\right)^n}$$

$$FV = P.V\left(1 + \frac{r}{100}\right)^n$$

Present value

Future value

$$\boxed{\text{Present Value} = \frac{\text{Future Value}}{\left(1 + \frac{r}{100}\right)^n}}$$

Given

FV = 20lakh

R = 15%

T/n = 2 year (Question mai missing taken from study Mat. Answer)

$$P.V = \frac{FV}{(1+r)^n}$$

$$= \frac{20L}{(1+0.15)^2}$$

$$= \frac{20L}{(1.15)^2} = \frac{20L}{1.3225}$$

$$= \boxed{15,12,287.33}$$

Change in provision

1. It is to be Reveiwed at every year end and adjust to Reflect the Current Best Estimate. If it is no longer Required it should be Reversed.

2. Where discounting is used the Amount provision is increases in each period Reflect the passage of time. This increase is Recognised as Borrowing Cost

Use of provision

A provision shall be used only for Expenditure for which the provision was originally recognised.

Accounting for provision

1. Amount of provision = Expense in P&L statement

2. Amount of provision outstanding at the end = liability

3. If any Reimbursement against provision = Assets.

Ex 3

$$PV = \frac{FV}{\left(1 + \frac{r}{100}\right)^n}$$

$$PV = \frac{500,000}{\left(1 + \frac{10}{100}\right)^{10}}$$

$$PV = \frac{500,000}{(1.10)^{10}}$$

$$PV = \frac{500,000}{2.593742}$$

$$\boxed{PV = 1,92,772}$$

1/4/2020

Expense A/c — Dr 192,772
To provision 192,772

31/3/2021

Interest A/c — Dr 19,277
To provision 19,277

Balance in provision = 192,772 + 19,277 = $\boxed{2,12,049}$

31/3/2022

Interest A/c — Dr 21,205
To Provision 21,205

Balance in provision = 2,12,049 + 21,205

= $\boxed{2,33,254.12}$

Future operating losses

NO PROVISION is to Recognised for future operating losses because it does not meet the definition of provision. [Provision can be Recognised from past event].

Reimbursements

In this Case some or all of the Expenditure Required to settle a provision is Expected to be $\boxed{\text{Reimbursed}}$ by $\boxed{\text{another party}}$

Income

Entry

Remb. Asset A/c — Dr (Asset ↑)

To P & L A/c (Income ↑)

Onerous Contract

① If the $\boxed{\text{entity}}$ has a $\boxed{\text{Contract}}$ that is $\boxed{\text{onerous}}$, the present obligation under the contract shall be Recognised & measure as a $\boxed{\text{provision}}$.

② Onerous Contract means $\boxed{\text{Contract where}}$

unavoidable Cost of meeting the obligation $\boxed{\text{EXCEED}}$ Economic Benefit to be Received under it

Restructuring

① A provision for restructuring cost should be Recognised only when the Recognition criteria of provision is met

② Restructuring $\boxed{\text{means}}$ A programme that $\boxed{\text{Material changes}}$

→ In Scope of Businen

→ In Manner in which Business is Conducted.

Contingent Assets

① Possible Asset that arise from past event . Whose Existence will be confirmed only by the occurence or non-occurence of one or more uncertain future events not within the control of the entity

Treatment of Contingent Asset

① Inflow is virtually Certain [90% – 100%] = Not a Contingent Asset as the inflow is Certain so it becoming an Asset . So Recognised as Asset

② Inflow is Probably But not Virtually Certain (More than 50% – 80%) = Contingent Asset is Not Recognised but Discloures as Required

③ Inflow is Not probable (less than 50%) = Contingent Asset is neither recognised nor disclosed.

Contingent Liability

① Possible Liability that arise from past event . whose Existence will be Confirmed only by the occurence or non-occurence of one or more uncertain future events not within the Control of the entity

② Present Liability | obligation that arise from past event but is not Recognised because

(I) It is not probable that outflow of Resources will be Required.

OR

(II) The Amount Cannot be Estimated Reliably.