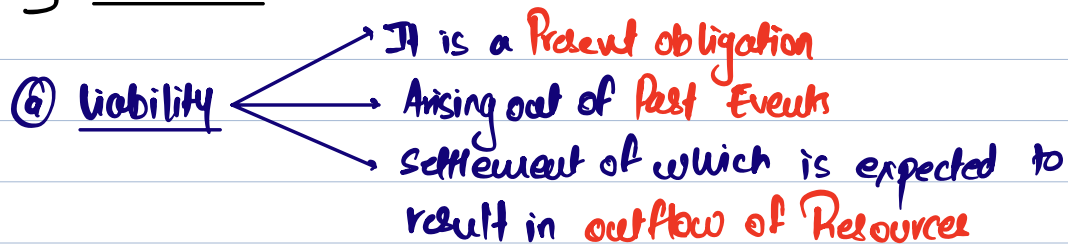


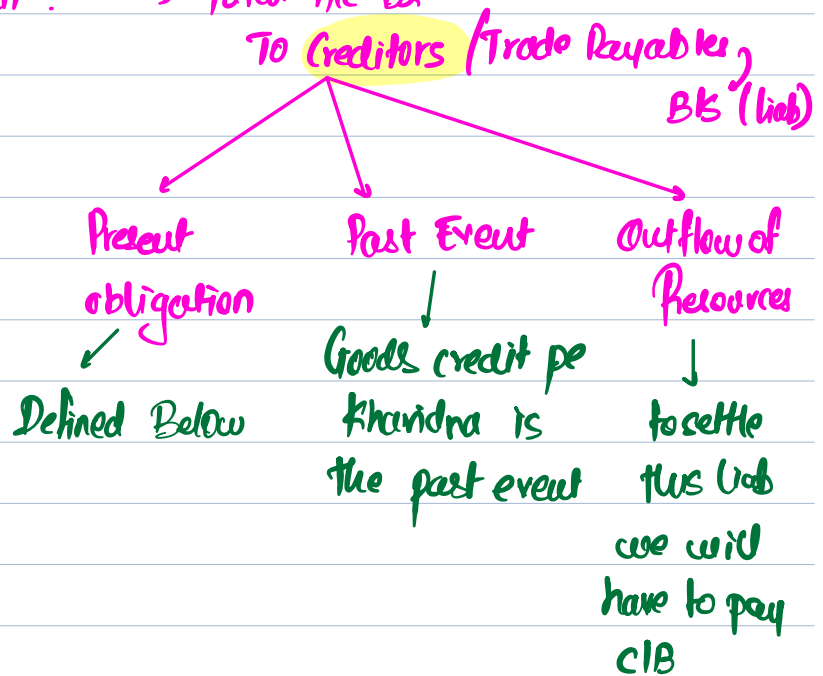
AS 29 → Prov, Cont Liab & Contingent Assets

I] Definitions



Example

Goods purchased on credit? → Purch Alc Dr



② Obligation / Obligating Event

It is an event that results in an enterprise **having no realistic alternative to settling the obligation**

(Obligation matlab isko pay / settle karne ke alwara, koi raasta nahi hai)

c) Present obligation → More likely than NOT (More than 50% chance of paying it)

d) Possible obligation → less likely than NOT (less than or equal to 50% chance of paying it)

e) Past Event

For an obligation to arise there should be a past event.

eg: Creditors → Past Event is purchasing on credit

loan taken → taking loan from a Bank

Penalty on Govt does or penalty on contamination } Past Event is not paying the govt does or contaminating the river.

II] Provisions

a) Definition of Provision

It is a **liab with uncertain timing or Amount**

b) Recognition of Provision

A provision should be recognised when:

i) An entity has a **present obligation**

ii) As a result of **past event**

iii) It is probable that an **outflow of Resources** will be reqd

iv) A **reliable estimate** of the amount can be made

} **Liab (+)**
Reliable Est

c) Measurement of Provision

→ The entity shall apply its **best estimate** to measure the amt of provision

→ The amount of provision should **NOT** be discounted to its **Present value**.

(Exception: In case of Decommissioning / Dismantling / Site Restoration, it is recorded at Present value) → Discussed in AS 10.

d) Changes in Provisions

→ Provision should be reviewed at each B/d date to reflect the best estimate

→ If provision is no longer required, then reverse the provision.

e) Use of Provision

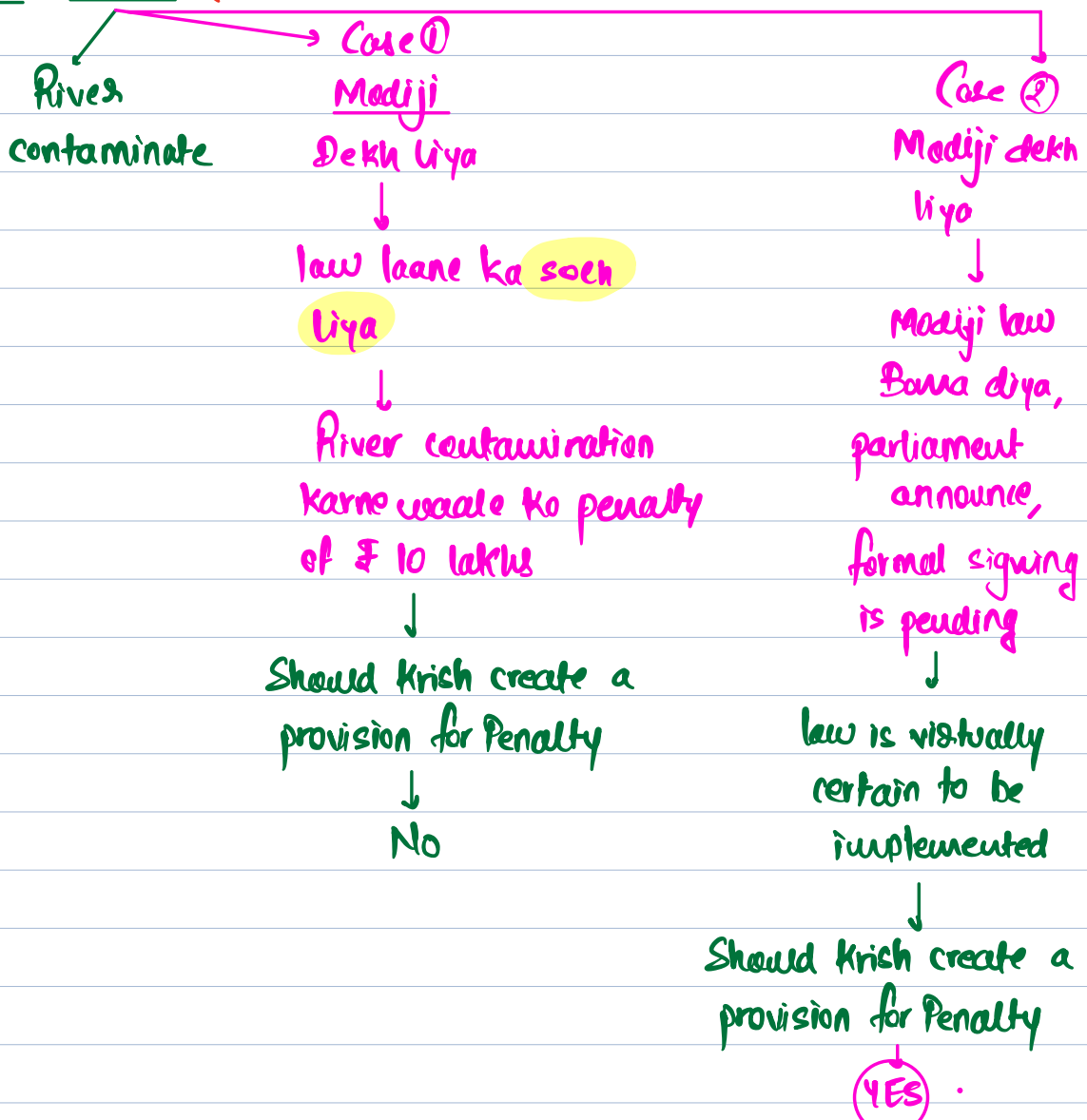
Only expenditure that relate to the original provision are adjusted against it.

<u>Example</u>	
① <u>Warranty prov</u> → 15,000	② <u>Actual exp incurred on warranty</u> is ₹ 12,000
<u>J.E.</u>	
Warranty Exp (PIL) A/c Dr 15K	Prov for warranty Dr 12,000
To Prov for warranty 15K	To c/b 12,000
	Prov for warranty Dr 3,000
	To PIL (Reverse) 3,000

④ Special points

i) If any law is announced by the govt, due to which an obligation to make the payment might arise on the comp^y, then create provision only when the law is **virtually certain to be implemented.**

Example: krish ♀



ii) Requirement of inspection / Major overhaul

→ Only those provisions are recognised for which entity has **no realistic alternative** rather than settling it.

→ If entity can avoid such expenditure by its future actions, then **NO provision is recognised.**

eg: $\begin{matrix} \text{2018} \\ \text{AK} \end{matrix} \rightarrow \text{Put Jet} \rightarrow \text{Every 5 years} \rightarrow \text{Inspection is mandatory}$
(Major overhaul)
Govt ne bola.
Year 1

Entity can avoid this exp by its future course of action (i.e. By selling the put jet within 5 yr) → ∴ No obligation to hence No Provision

Note: Provision can be made after 5 years of use of Put Jet, when inspection cost becomes due.

iii) Future operating losses

→ **NO Provision** is to be recognised as it does not meet the defⁿ of Prov (It does not arise from Past Event)

iv) Onerous Contract (loss making contract)

→ It is a contract where, **Unavoidable cost of meeting the obligatⁿ**
Exceeds
Benefits to be received from it.

Eg: Himanshu sells goods to Parth
Unit 100 @ ₹50
Revenue = ₹5000

Cost Estimate Before
entering into the contract → ₹4000

Actual cost of Purch = ₹5500

Create Provision:

lower of:

unavoidable loss

loss = ₹300

Cancel Penalty = 1000

Penalty = 1000
on cancellⁿ

v) Restructuring

It is a program that materially changes

eg Ace Prof → low grade

Scope of Business
(R)

Manner in which
Busn is conducted.

eg: offline
Teachⁿ → Online
Teaching.

→ A provision for restructuring cost is recognised only when
recognition criteria of Prov are met.

(eg: Restructuring karne ka soch raho hai, no steps undertaken → No Prov.
Restructuring plan ready, announced restructuring, steps started for restructuring
↳ Recognise Prov)

* Restructuring Provision Amount:

Includes

Only the direct expenditure arising from restructuring which are **BOTH**:

- a) Necessarily entailed by the restructuring
- AND**
- b) Not associated with ongoing activities of the entity

eg: Offline Teaching

Expense which are arising on restructuring

- ① 10 employees lay off → 2 months salary
- ② 2 years Rent payable → (agreement was non-cancellable)
- ③ Other Relevant expense for closing the Busn.

Included in Provision

Excludes

- ① Retaining cost of continuing staff
- ② Relocation cost of continuing staff
- ③ Marketing
- ④ Invest in New Systems.

These exp relate to future conduct of Busn

Online Teaching

- ① 10 employees training & relocate to new location
- ② Marketing of online teachⁿ
- ③ Investment in New Systems (Mic, PC, camera, Ipad etc.)

No Prov

As this relates to future conduct of Busn.

vi) Reimbursements

In this case, some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.

<p><u>J.E. Provision</u></p> <p style="text-align: center;">↓</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Exp (PIL) A/c Dr</td> <td style="width: 10%; text-align: right;">100</td> <td></td> </tr> <tr> <td style="text-align: right;">TO Prov</td> <td style="text-align: right;">100</td> <td></td> </tr> </table>	Exp (PIL) A/c Dr	100		TO Prov	100		→	<p><u>Reimbursement (70%)</u></p> <p style="text-align: center;">↓</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Reimb Asset A/c Dr</td> <td style="width: 10%; text-align: right;">70</td> <td style="text-align: right;">(Bk- Asset)</td> </tr> <tr> <td style="text-align: right;">TO Reimb Income (PIL)</td> <td style="text-align: right;">70</td> <td></td> </tr> </table>	Reimb Asset A/c Dr	70	(Bk- Asset)	TO Reimb Income (PIL)	70	
Exp (PIL) A/c Dr	100													
TO Prov	100													
Reimb Asset A/c Dr	70	(Bk- Asset)												
TO Reimb Income (PIL)	70													

Extract	PIL		Bk	
Exp	100	Reimb Inc	70	
			Prov	100
				Reimb Asset
				70

PIL → net off allowed
Bk → no net off allowed

- Reimbursement is recognised only when it is virtually certain that such reimbursement will be received
- The amt of reimbursement shall **NOT Exceed** the amount of prov.

IV] Contingent Liability

⑥ Definition (Any 1 Defⁿ to be met)

<p>① It is a Possible obligation arising out of Past Event the existence of which will be confirmed by occurrence / non-occurrence of one or more future uncertain events</p>	<p>OR</p> <p>② It is Present obligatⁿ arising out of Past Events where outflow is NOT probable but Amt. can be estimated reliably</p>	<p>OR</p> <p>③ It is a Present Ob. arising out of Past Events where outflow is probable, But Amt cannot be estimated reliably</p>
<p>eg: Armaan $\xrightarrow{\text{case}}$ AK \downarrow chances of losing is <u>25%</u> Poss Ob \rightarrow <u>Cont Liab.</u></p>	<p>eg: Roanak \rightarrow Took loan from / Demo Bank [Guarantee by AK Hai Bhai sahab] AK Books \rightarrow <u>Contingent Liab.</u></p>	<p>eg Armaan \downarrow case AK losing chances 80% Cannot est the amt of Penalty \downarrow \therefore <u>Cont Liab</u></p>

AK Hai Bhai sahab Exclusive

<u>Liab</u>	<u>Prov Defⁿ</u>	<u>Cont Liab</u>		
① Present Ob				
② Past Events	Liab with uncertain time or Amt			
③ Outflow of Resources	<u>Recog criteria</u>	\downarrow ① Poss. Ob Past Event	② Present Ob Past Event outflow is	③ Present Ob Past Event outflow is

	Present or Past Event outflow of Resources Reliable Est of Amt		NOT probable	probable
			• Amt can be est reliably	Amt cannot be est reliably

⑥ Recognition of Cont Liab

→ Contingent liab should NOT be recognised but should be disclosed in Notes to Ac's.

→ If probability of contingent liab is very Remote (eg chance of losing the case is 5% or less), there is NO need to disclose such contingent liab.

IV] Contingent Asset

⑥ Definition

It is a possible Asset arising out of Past Events, the existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future event.

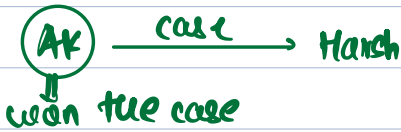
⑥ Recognition of Contingent Asset

→ Neither recognised NOR disclosed in FS

→ If Co. wants to disclose it can disclose in Report of Approving Authority (Director's Report)

→ If inflow is virtually certain, then it is no more a contingent asset. It becomes a normal asset. ∴ Recognise in FS. (eg Below)

eg:



IL compensation will be rec'd.

Bues paisa ana Baaki hai.

~~Contingent Asset~~ Asset ✓
Recognize ✓

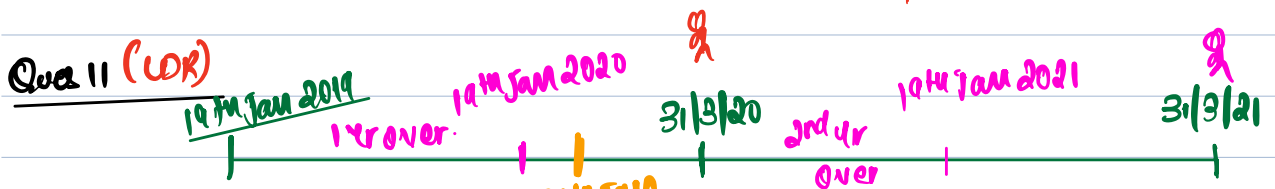
Ans-format

As per As 29 "

Defn, Liab / Prov / Cont Liab

Calⁿ (if required)

Conclusion 2-3 lines.

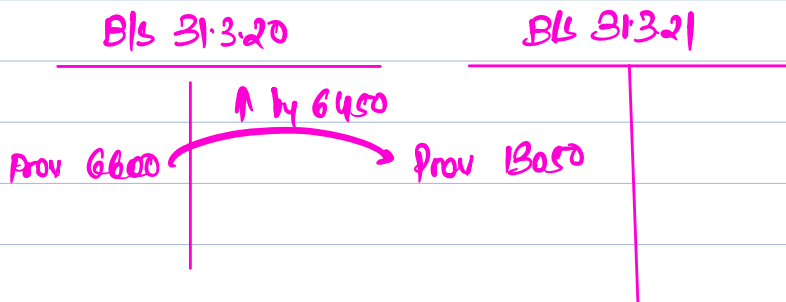


Invoice Date	Amount	Warranty period remaining on 31-3-20	Warranty period remaining on 31-3-21
19th Jan 2019	120000	less than 1yr (3%)	No warranty remain
29th Jan 2020	75000	more than 1yr (4%)	less than 1yr (3%)
15th Oct 2020	270000	-	More than 1yr (4%)

Calculation of Prov

As on 31.3.20 $\rightarrow 120000 \times 3\% (+) 75000 \times 4\% = 6600 \rightarrow$ J-E Sp(P/L) 6600
 TO Prov 6600

As on 31.3.21 $\rightarrow 75000 \times 3\% (+) 270000 \times 4\% = 13050 \rightarrow$ J-E
 P/L ~~13050~~ 6450
 TO Prov ~~13050~~ 6450



Q18 (LOR)

Sales Month	Sales Value	Cumulative Sales	Likely Return (%)	Return in (£)	Prov @ 20%
March	60,00,000	60,00,000	6%	360000	72000
Feb	48,00,000	1,08,00,000	7%	756000	151200
Jan	36,00,000	1,44,00,000	8%	1152000	230400
					<u>453600</u>

Q19 (1) Calculation of Profit Margin on Sales

$$\frac{\text{Profit}}{\text{Sales}} \times 100 = \frac{80}{400} \times 100 = 20\%$$

(Sales 400
 (-) Cost (320)

Q21 (LDP)

As per AS 29 → Provi Defⁿ + Cont Asset Defⁿ.

As per AS 4 → event may, June (out of scope) → why? BOD Approval
20th April.

