

AS 29: Provisions, Contingent Liabilities & Contingent Assets

Provision

Recognition Criteria:

P&L A/c - Dr.
To Provision

- ★ Present obligation as a result of past event
- ★ Probable that outflow of resources will be required to settle obligation
- ★ Reliable estimate can be made

Points to Note:

- Provision should not be recognised for future operating losses.
- Provision should not be discounted to its present value.

Exception: Provision for decommissioning & restoration

Contingent Liability

Possible obligation

OR

Present obligation but not recognised because

- ★ Outflow of resources not probable or
- ★ Reliable estimate cannot be made

Recognition: NO

Disclosure: Yes

Exception i.e. No disclosure if remote possibility of outflow of resources

Contingent Asset

Possible asset from past events existence of which will be confirmed by uncertain future events.

Recognition: NO

Disclosure: Not in Financial statements

Disclosed in Director's Report

Reimbursement

When some or all of expenditure required to settle provision is expected to be reimbursed by another party, recognise reimbursement when virtually certain that it will be received.

Reimbursement recognised should not exceed provision amount.

Balance sheet: separate asset

P&L A/c: Provision may be presented net of reimbursement

Restructuring

Programme that is planned & controlled by management and materially changes either:

★ scope of business or ★ manner in which business is conducted

Recognise Provision if recognition criteria met.

Exclusions: Costs of retraining or relocating continuing staff, marketing costs,
Investment in new system

Onerous Contract

Contract in which unavoidable costs of meeting obligation exceed economic benefits expected to be received.

Provision: Lower of

★ Cost of fulfilling contract

★ Penalty from failure to fulfill it