



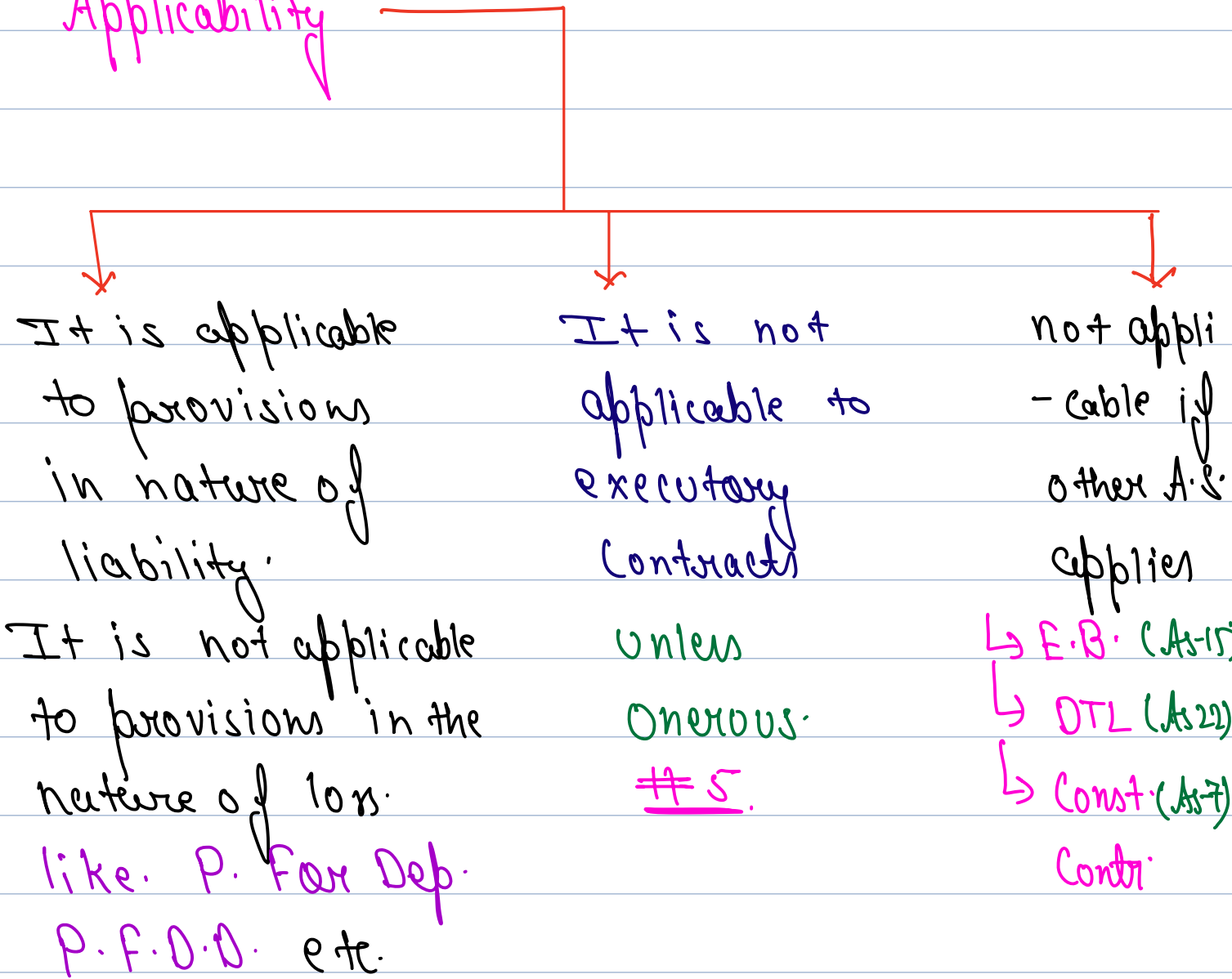
आचारसंहिता आंतरव्ययमः सुमं प्रमा



As-29

Provisions, Contingent liability & Contingent Assets.

#1 Applicability



#2

There is a Contingency on B/S date.
(situation)



which may lead to an event after B/S date.

Yes
As-4

No.

Is such Contingency may lead to either

amt. receivable

amount Payable.

Contingent Asset

Should be recognise it in FIS?

Should not be recognised in FIS.

Yes

No



↓
if conditions
fulfilled

↓
Provisions.

↓
else
HD
MENTORING
HARSH T DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

↓
C.L.

#3 Recognition

Step 1 check obligation exist.

↓
whether legal or constructive

where an entity has no realistic alternative to avoid liability then such obligation should be recognised as provisions / Cont. Li.

↓
meaning of
obligation

↓
liability to pay
or settlement

↓
legal

↓
arises
from contract
or law.

↓
Constructive

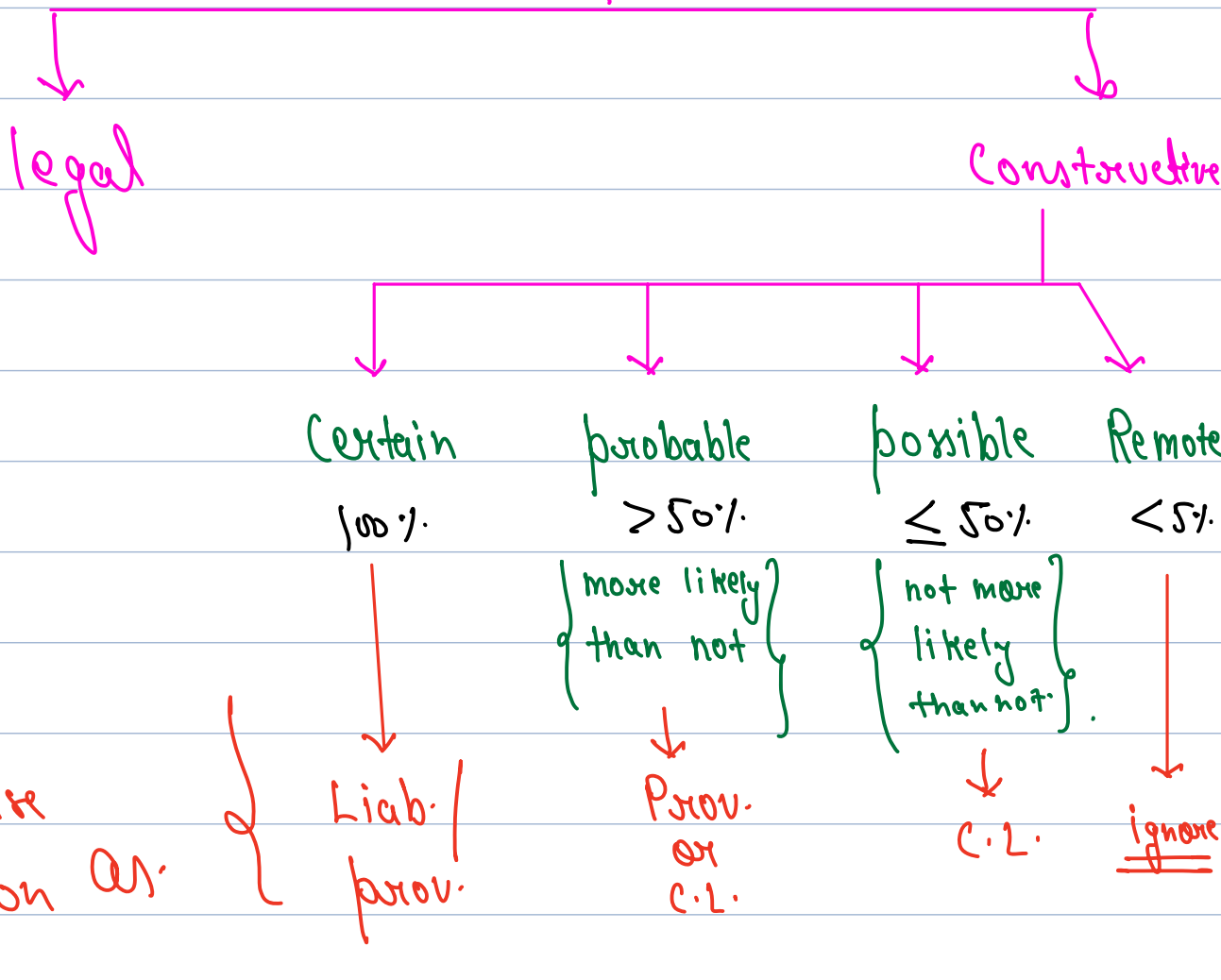
↓
arising
out of
established



of which will require outflow of economic resources.

published policies.

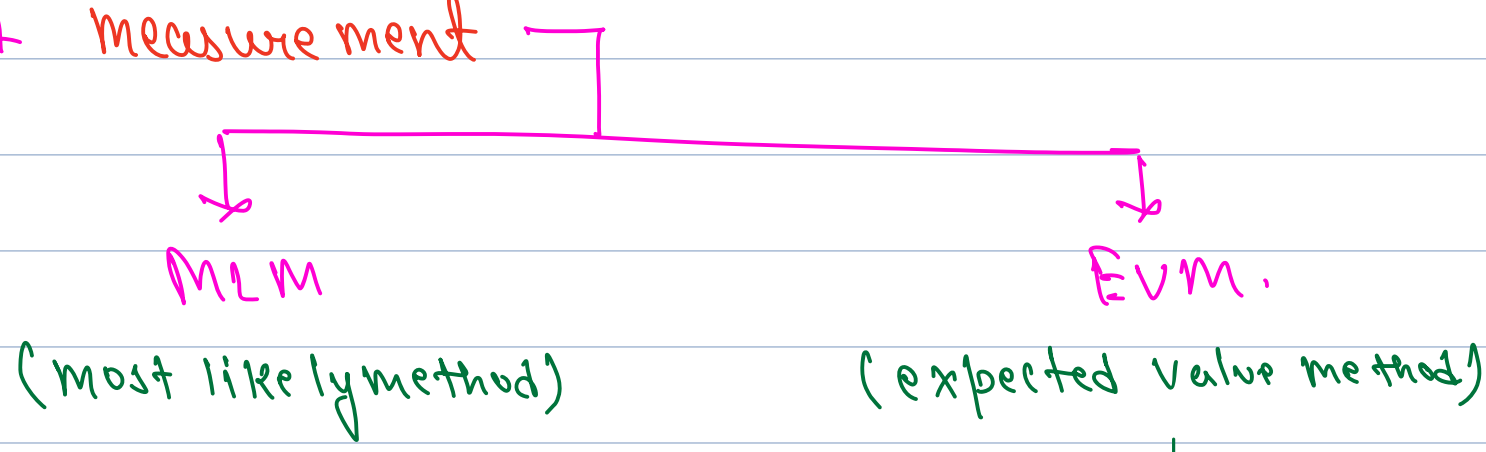
obligation can be of



step 2 :- when obligation exist, then check degree of obligation.

	Obligation	amount	recognises
i)	Certain	Certain	Liability.
ii)	Certain	Uncertain (can be estimated)	Provision
iii)	Certain	Uncertain (cant be estimated)	C.L.
iv)	Probable	Certain / Uncertain (can be estim.)	Prov.
v)	Possible	ignore	C.L.
vi)	Remote.	ignore.	ignore.

4 measurement





$\geq 50\% \Rightarrow$ full amount.
 $< 50\% = 0$

amount is proportional to % of obligation



eg \rightarrow chances of ₹10000 is 70%.

MLM:

$\Rightarrow 10000$

EVM

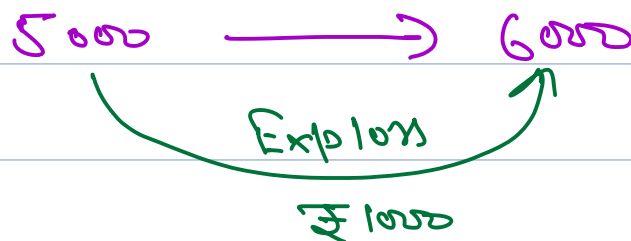
$70\% \times 10000$
 $\Rightarrow 7000$

#5 Onerous Contract.

Contracts where expected cost $>$ benefit

amount of provision =
 i) penalty to Exit or
 ii) Expected loss.

eg \rightarrow



1 penalty to exit
 ₹700.



$$\therefore \text{amt of provision} = \begin{array}{l} \text{₹100 or} \\ \downarrow \\ \text{₹1000} \\ \hline \text{₹700.} \end{array}$$