



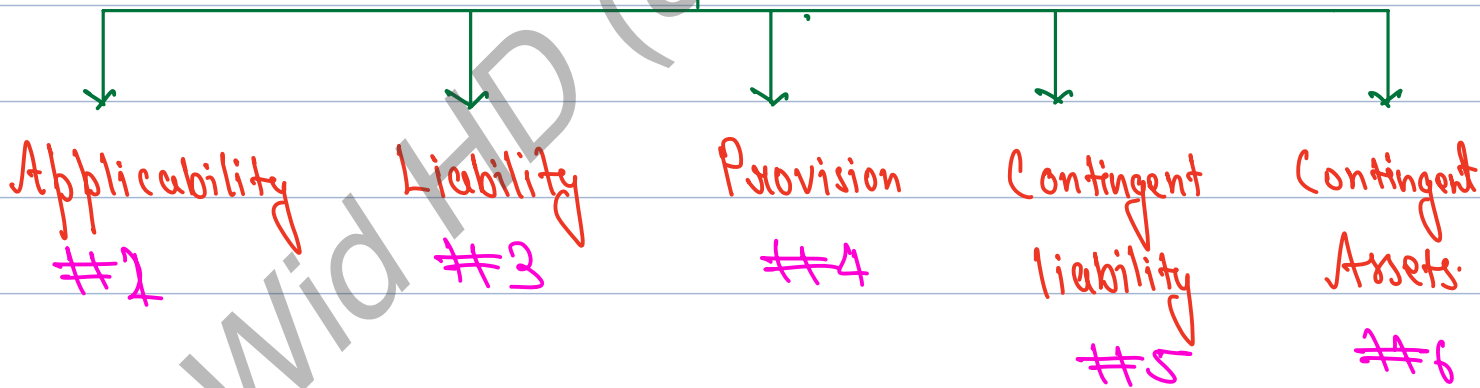
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## IND AS 37

Provisions, Contingent Liabilities  
& Contingent Assets.

### #1 Overview



### #2 Applicability

i) It is applicable to provisions in nature of liability

↳ It is not applicable on  
provisions for expected losses  
→ P F DD → P F Imp. loss.  
→ P F Dep



ii) It is not applicable to executory Contract unless onerous.



iii) This standard is not applicable if other IAS As applicer. i.e. all other standards which deal with liabilities

eg → F.L., P.B., DTL, Com. Contracts

IND cloud 1

Situation

(Contingencies)

may lead to an event either favourable or unfavourable

Amt receivable

(Contingent Asset)

Should not be recognised in FIs unless in the nature of reimbursement

Amt payable

Should it be recognised in FI??

Yes

No



egs ↓  
i) loss of stock against Ins. claim  
or profit  
↓  
Reimbursement

ii) Plan Asset → Asset ceiling.  
→ DBO

↓  
if **probable** (S)  
amt can be  
estimated.  
↓  
Provisions

↓  
if **possible** (or)  
Amount cannot  
be estimated  
↓  
Cont. Liability

~~HD Cloud-2~~

is obligation (Liab. to settle)

↓  
it can be legal / constructive.

egs ↓  
if mentioned in  
contract / office  
package.

egs ↓  
if mentioned in Bill  
or it is Past practice

↓  
Certain

↓  
Probable

↓  
possible

↓  
Remote.

Chances

Sure

more likely  
than not

not more  
likely than  
not

Very  
rare

probability in %: 100%

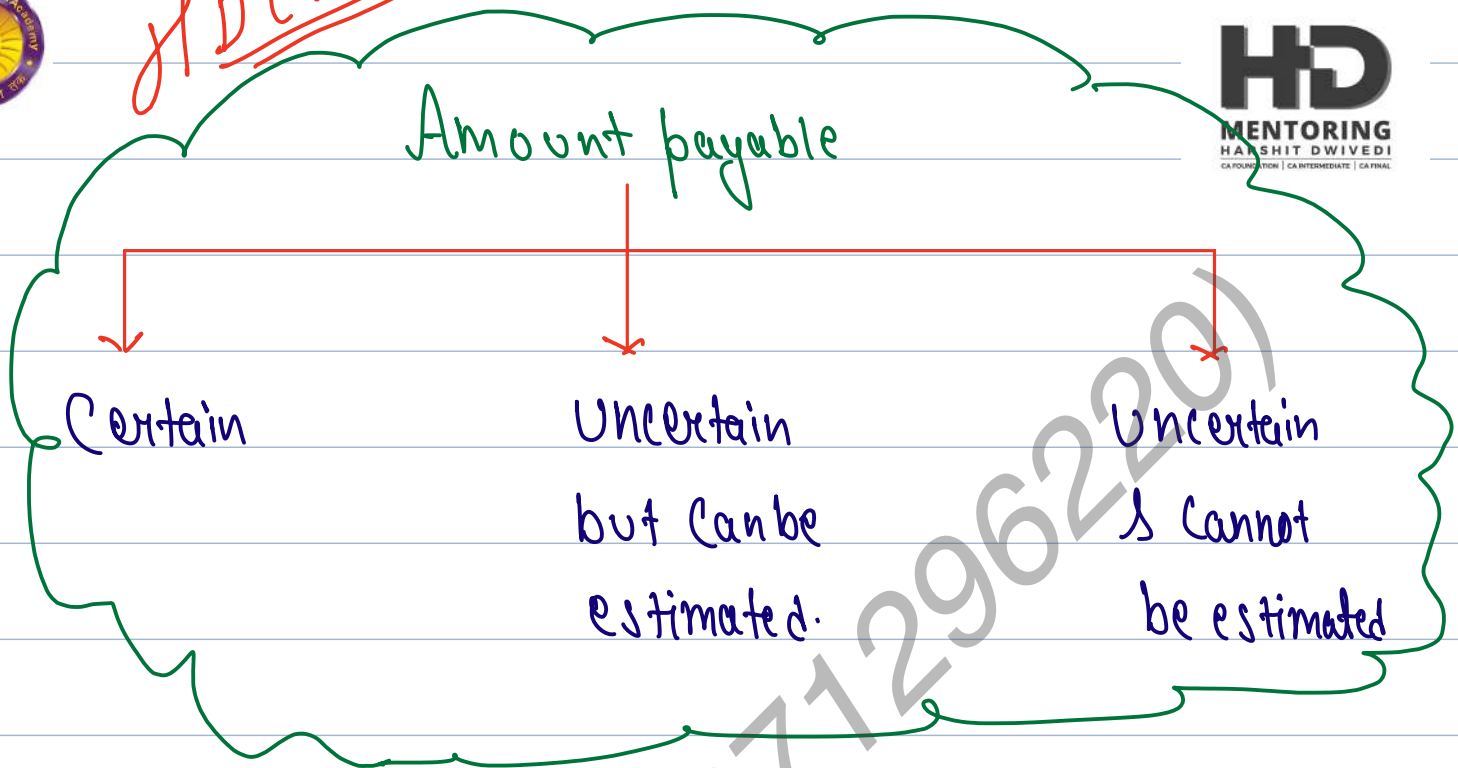
> 50%

≥ 5% < 50%

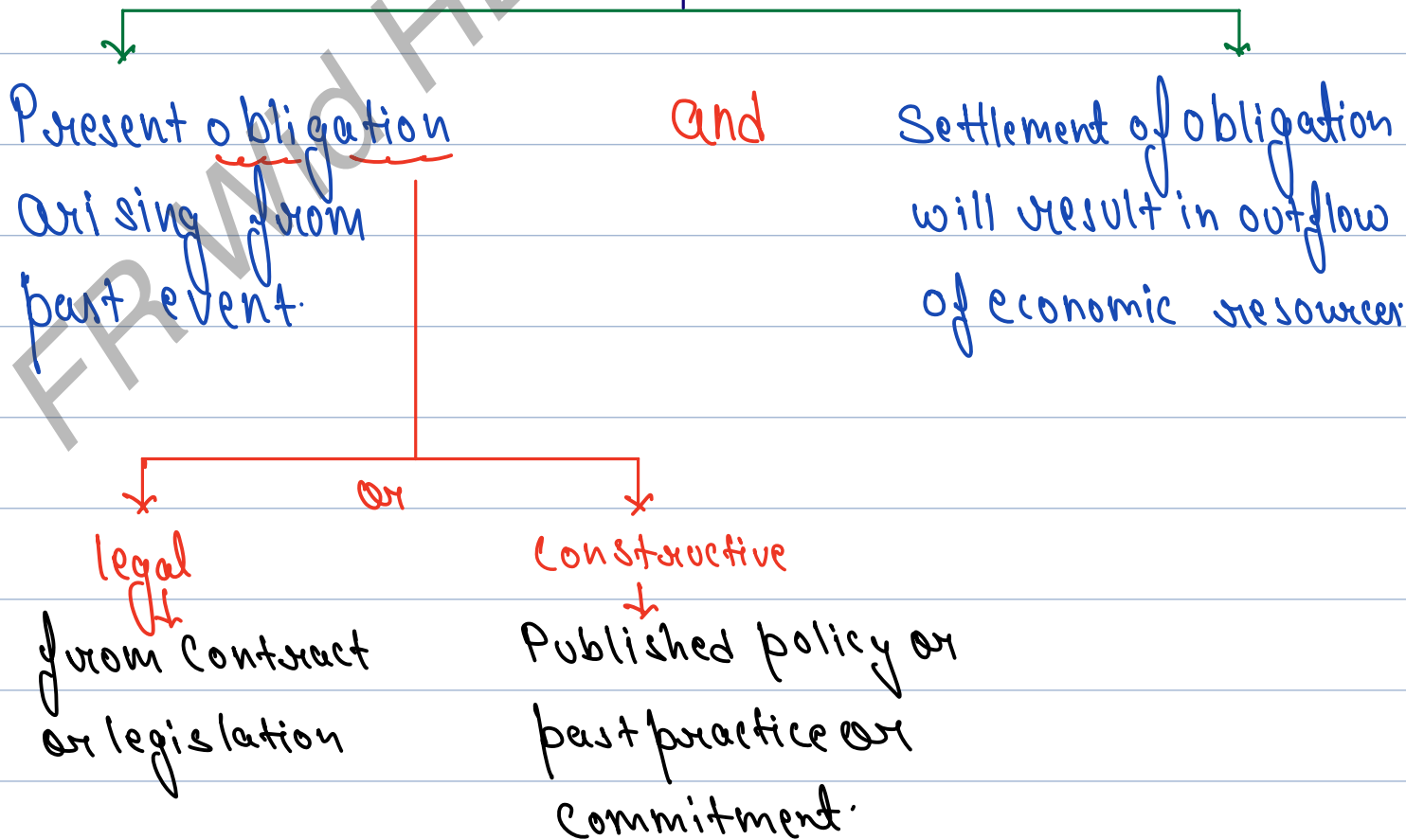
< 5%



HD cloud 3



#2 Liability :- it is a



# #3 Provision



a) Meaning :- it is a liability of uncertain amount or timing i.e.



Present obligation arising from Past events

Outflow of resources is probable

amount can be estimated reliably.

## b) Recognition

i) Provision shall be recognised as a liability in FIs.

ii) → Amount of provision

if there are many possible outcomes then calculate

expected value by using probability of each outcome.

eg → 10 cases.  
↳ 6 high.  
↳ 4 low

if there is one possible outcome then consider

entire amt estimate

(prob. % X cash outflow)



→ if expenditure is to be incurred after one year then provision should be recognised @ PV by using pre tax discounting rate.

→ Charge interest on unwinding of prov. as finance cost.

→ if there is risk that actual outflow would be more than the expected PV of outflow then

Expected P.V. of outflow      xxx  
+ Risk Return %                      xxx

Amount of provision      xx

→ Refer last Q. of IIND AS 113.

→ Provision should be reviewed at each BIS date & adjusted to reflect the current best estimate. if it is no longer required then it should be reversed.



→ if an entity can avoid any expenditure by its future actions, then no provision is recognised on such expenditure.



eg → Future operating cost like overhaul or inspection, operating losses etc.

Is there any situation that will lead to exp.

↓  
No situation → No acc.

it means that has to be accrue / not accrue.

So if it can be avoided so No prov.  
bcz if it cannot be avoided then oblig.

↓  
prov.  
↓  
acc.

iii) Onerous Contract :- is a contract in which unavoidable cost of meeting the obligation exceeds economic benefits to be received under it.

Amount of provision = lower of  
⇒ loss of fulfilling the onerous contract



Q7

⇒ Penalty for Non performance of Contract i.e. Exiting the Contract

eg → HD Ltd sold Acquired with 6m of Sr. Contract for ₹ 5000.  
Should entity recognized cost of service on provisional basis

No

∴ it is executory Contract

Yes

if Cost of Sr.  
⇒ ₹ 6000

Then Create provision of ₹ 1000 loss.

if Cost of Service

⇒ ₹ 7000 but penalty ⇒ ₹ 500

∴ loss = 2000  
penalty = 500  
w. I. L.

hence. Create a prov. for 500



iv) Restructuring → is a plan to change the scope of business or manner of conducting business



eg → Internal Reconstruction  
Closure of Division  
Sale of Division

Provision for Restructuring Cost is recognised when constructive obligation to restructure arises when

entity has a detailed formal plan

and

entity has raised a valid expectation for restructuring by announcing the plan.

→ Amount of provision for Restructuring Cost include only direct expenditure arising from restructuring i.e. Staff termination, } immediate



Compensation to Customer,  
leave termination cost etc.

Cost incurred  
for Reconstituted  
- on.



Relocation Cost / Retraining Cost of employees /  
Imp. loss on assets are not considered  
in amount of provision.

### V) Reimbursements:

if expenditure required to settle the  
obligation is expected to be reimbursed  
by other party and is virtually certain  
( $> 95\%$ ) that reimbursement will be  
received, then

Reimbursement  
shall be recognised  
as a separate  
asset in BIS

provision Exp and  
Reimbursement  
income can be  
presented by  
netting off in  
P/L

Reimbursement  
shall not  
exceed  
provision  
amount.



eg → Took a forward contract to sell gold @ 30000 but since price started rising, Co. purchased a forward contract to sell @ ₹ 35000  
 No price reaches ₹ 40000  
**B/S**



Prov. on F.C. 1000	F.C. Receiv. 5000	Prov. for loss	5000
	↓ Reimbursement		

→ if Reimbursement are not virtually certain then disclose it in Notes to F/S.

## #5 Contingent liability

a) Meaning

Possible obligation  
 Arising from past events that will be confirmed only on occurrence

Present obligation  
 Arising from past events and



or non occurrence of certain future events.

outflow of economic resources is not probable

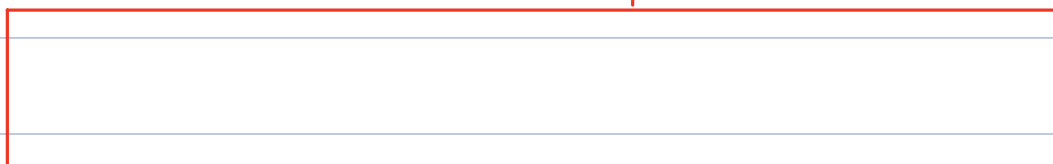
or amt cannot be estimated reliably.

b) Recognition :- C.L. shall not be recognised but it should be disclosed in notes to A/c. However if possibility of outflow is remote i.e. less than 5%, then disclosure is also not required.

## #6 Contingent Assets

a) meaning :- Possible asset arising from past events that will be confirmed only on occurrence / non occurrence of uncertain future events.

b) Recognition :-





if inflow of economic resources is probable but not virtually certain

↓  
Disclose in Notes to a/c.

if inflow of economic resources is ~~not~~ probable

↓  
no disclosure required.

Read it from here.  
Solve Vol. 3 Q.

FR Wid HD (8871296220)