AS 29 – Provisions, Contingent Liab & Contingent Assets

I] Definitions

ⓐ **Liability** → It is a Present obligation
→ Arising out of Past Events
→ Settlement of which is expected to result in outflow of Resources

Example

Goods purchased on credit → Purch A/c Dr
To Creditors / Trade payables → B/s (Liab)

- Present obligation → Def^{n} Below
- Past Event → Goods credit pe kharidna is the past event
- Outflow of Resources → to settle this liab we will have to pay c/B

ⓑ **Obligation / obligating event**

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

ⓒ <u>Present obligation</u> → More like than NOT (More than 50% chance of paying it)

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

ⓔ <u>Past Event</u>

For an obligation to arise there should be a past event

eg: i) Creditors — Past Event is purchasing on credit
ii) loan taken → —— " —— taking loan from a Bank
iii) Penalty on Govt dues or penalty on contamination } → Past event is not paying the govt dues or contaminating the rivers.

II] <u>Provisions</u>

ⓐ <u>Definition of Provision</u>

It is a liab with uncertain timing or Amount

ⓑ <u>Recognition of Provision</u>

A prov should be recognised when:

i) An entity has a present obligation
ii) As a result of past events.
iii) It is probable that an outflow of Resources will be required
iv) A reliable estimate of the amount can be made

} liab (+) Reliable est

(c) Measurement of Prov

→ Entity shall apply its Best estimate to measure the amt. of prov.

→ Amount of Prov should NOT be discounted to its present value.

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

(d) Changes in Prov

Prov should be reviewed at each B/s date to reflect the Best estimate.

If prov is no longer required, then reverse the prov.

(e) Use of Prov

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

eg: Warranty prov → 15000

(1)
Warranty Exp (P/L) Dr 15000
  To Prov for warranty 15000

(2) Actual exp incurred on warranty is ₹12000.

Prov for warranty 12000
  To C/B 12000

(3) Reverse excess Prov

Prov for warranty Dr. 3000
  To P/L (Reverse) 3000

(I) Special points

i) If any law is announced by govt, due to which obligatn arises on Co., then create prov only when law is virtually certain to be implemented

Eg: Sparsh → Modiji Dekh liya

Sparsh → River contaminate

case i)

law laane ka soch liya
↓
River contamination penalty 10 lakhs
↓
Should sparsh create a Prov for penalty
↓
Na Munna Na

case ii)

Modiji law Banwa diya, parliament announce, formal signing pending
↓
law is virtually certain to be implemented
↓
Should Sparsh creat a Prov
↓
YES Babu YES

ii) Requirement of inspection / major overhaul

→ Only those prov are recognised for which entity has No realistic alternative rather than settling it

→ If an entity can avoid such expenditure by its future action, then NO Prov is recog.

eg: AK (Life 20yrs) ⟶ Pvt Jet ⟶ Every 5 years Inspection is mandatory (major overhaul)

↓

Entity can avoid this exp by its future actions (i.e. By selling the Pvt. Jet within 5yrs) ∴ No obligation, hence No Prov.

Note: Prov can be made after 5yrs of use of Pvt 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 contract will exceeds the Benefit / Revenue from contract

→ Prov is to be recog for onerous contract at :

lower of:

unavoidable loss (Total Cost (-) Total Rev)

OR

Penalty on canceln

eg: Himanshu $\xrightarrow{\text{sell goods to}}$ Yash
S.P = ₹50,000
Cost to Himanshu = ₹55000

Penalty on cancel^n = ₹10000

Sol^n: Prov for onerous contract :
lower of
i) Unavoidable cost = 5000 (Rev 50000 - Cost 55000)
OR
ii) Penalty = 10000

$\boxed{\therefore \text{ Prov will be ₹5000}}$

Teams → kheti (farming)

vi) **Restructuring**
It is a program that material changes
- Scope of Business
- OR
- Manner in which Busi^n is conducted.

offline → Online
Teams Teams

A provision for restructuring cost is recognised only when recognition criteria of Prov are met.
(eg: Restructuring karne ka soch rahe hai, no steps undertaken → No Prov
Restructuring plan ready, announced restructuring, steps undertaken/started
→ Create Prov for Restructuring)

* Restructuring Prov Amt

Includes

Only the direct expenditure arising from restructuring which are BOTH:

a) Necessarily entailed by restructuring

AND

b) Not associated with ongoing activities of the entity

Excludes

ⓐ Retraining cost of continuing staff.

ⓑ Relocation cost of continuing staff

ⓒ Marketing

ⓓ Invst in New system.

↓

These exp relate to future conduct of Busn.

eg: For Restructuring

Offline Teaching → Online Teaching

Exp which are arising from restructing

i) 10 emp. lay off → 2 months salary

ii) 2 Years Rent payable (agreement non-canceln)

iii) Other Relevant exp for closing the Busn

⇓

Included in Prov

i) 7 emp training & relocate to new location

ii) Marketg of online Teachg

iii) Invst in New System (Mic, PC, Camera, Ipad etc.)

↓

No Prov

⇓

As this relates to future conduct of Busn.

vi) Reimbursement

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

Prov		→	Reimbursement	Given (70%)
P/L (Exp)	100		Reimb Asset A/c Dr	70
To Prov	100		To Reimb Income (P/L)	70

Extract

P/L

Exp	100	Reimb Inc	70

B/S

Liab		Asset	
Prov	100	Reimb Asset	70

P/L → netoff allowed

B/S → No Net off allowed.

- Reimb is recog only when it is virtually certain that such reimb will be rec'd.
- Amt of Reimb shall NOT exceed the amt of prov.

III] Contingent Liab

@ Definition (Any 1 Defⁿ to be met)

① It is a Possible obligation arising out of Past Event existence of which will be confirmed by occurrence/non-occurence of one or more future uncertain events

eg: AK ← case — Aman
↓
chances of losing are 25%
↓
Poss. ob → Cont Liab

OR

② It is Present obligatⁿ arising out of Past events where outflow is NOT probable, but Amt can be estimated reliably

eg. Abhinav → Took loan from Dena Bank
↓
Guarantee by AK
↓
AK Books → Contingent Liab

OR

③ It is a Present ob. arising out of Past Event where outflow is probable But Amt cannot be estimated reliably.

eg AK ← case — Aman
↓
chances of losing 100%.
↓
But cannot est. the Amt of Penalty
↓
$\boxed{\text{Cont Liab}}$

Ae Hai Bhaisahaab Exclusive

Liab	Prov	Cont Liab		
① Present ob. ② Past Event ③ Outflow of Resources	Def^n Liab with uncertain timing or Amt. Recog^n criteria • Present ob. • Past Event • outflow of Resources • Reliable Est of Amt	① Poss. ob Past Event	② Present ob • Past Event • outflow is NOT probable • Amt can be est reliably	③ Present ob. Past Event • outflow is probable • Amt cannot be est reliab

(b) Recog of Cont Liab

- Cont liab should NOT be recognised but should be disclosed in Notes to A/c's.
- If probability of contingent liab is very Remote (eg chances of losing the case is 5% or less), there is no need to disclose such cont liab.

[IV] Contingent Asset

(a) Definition

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

(b) Recog of Contingent Asset

- Neither recog nor disclosed in FS.
- If Co want it can disclose in 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: AK $\xrightarrow{\text{case}}$ Deepu

↓

won the case

1 lakh compensation will be rec'd by AK

↓

Bus paisa aana baaki hai

~~contingent Asset~~ Asset

∴ Recognise

Format of Ans

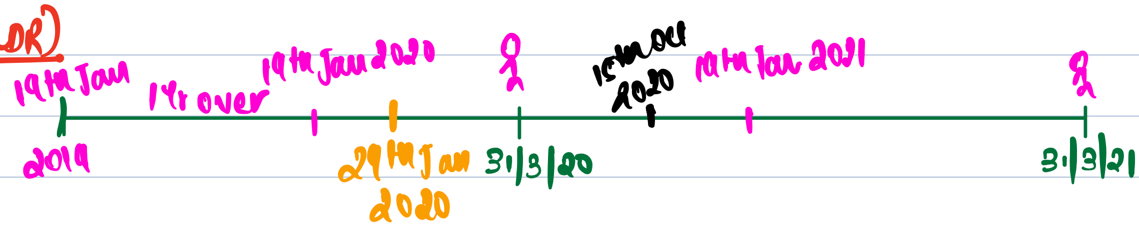
As per AS 29 "_ _ _ _ _."

Define Prov, Cont Liab, Cont Asset, Reimb, Restructuring....

Calⁿ (if any)

Conclusion 2-3 lines

Q11 (LDR)



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 remaining
29th Jan 2020	75000	more than 1Yr (4%)	less than 1Yr (3%)
15th Oct 2020	270000	-	more than 1Yr (4%)

Calculation of Prov

J-E

As on 31.3.20 : 120000 × 3% (+) 75000 × 4% = 6600 → P/L (Exp) 6600
To Prov 6600

As on 31.3.21 : 75000 × 3% + 270000 × 4% = 13050 → P/L (Exp) ~~13050~~ 6450
To Prov ~~13050~~ 6450

B/S 31.3.20	
Prov	6600

↑ by 6450

B/S 31.3.21	
Prov	13050

Q18 (CDR)

Sales month	Sales value	Cumulative Sales	likely Return (%)	Returns 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	3600000	1,44,00,000	8%	1152000	230400
					453600

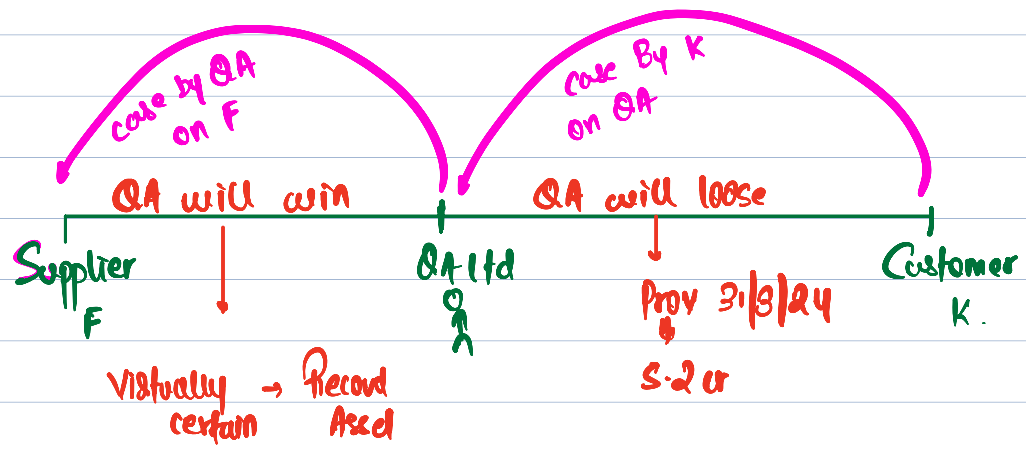
Prov for returns is created only for the profit margin on these returns.

WN① Caln of Profit margin on sales

$$\frac{\text{Profit}}{\text{Sales}} \times 100$$

$$\frac{80}{400} \times 100 = \boxed{20\%}$$

Q21 (CDR)



Vrt. certain × → Contingent Asset
(No Recording, No disc)

Till 31/3/24 ∴ Cont Asset
(case not yet won)

01/06/24 → It will become asset

As per AS 4, FS approved on 26th April ∴ Event of May, June is out of scope of AS 4.