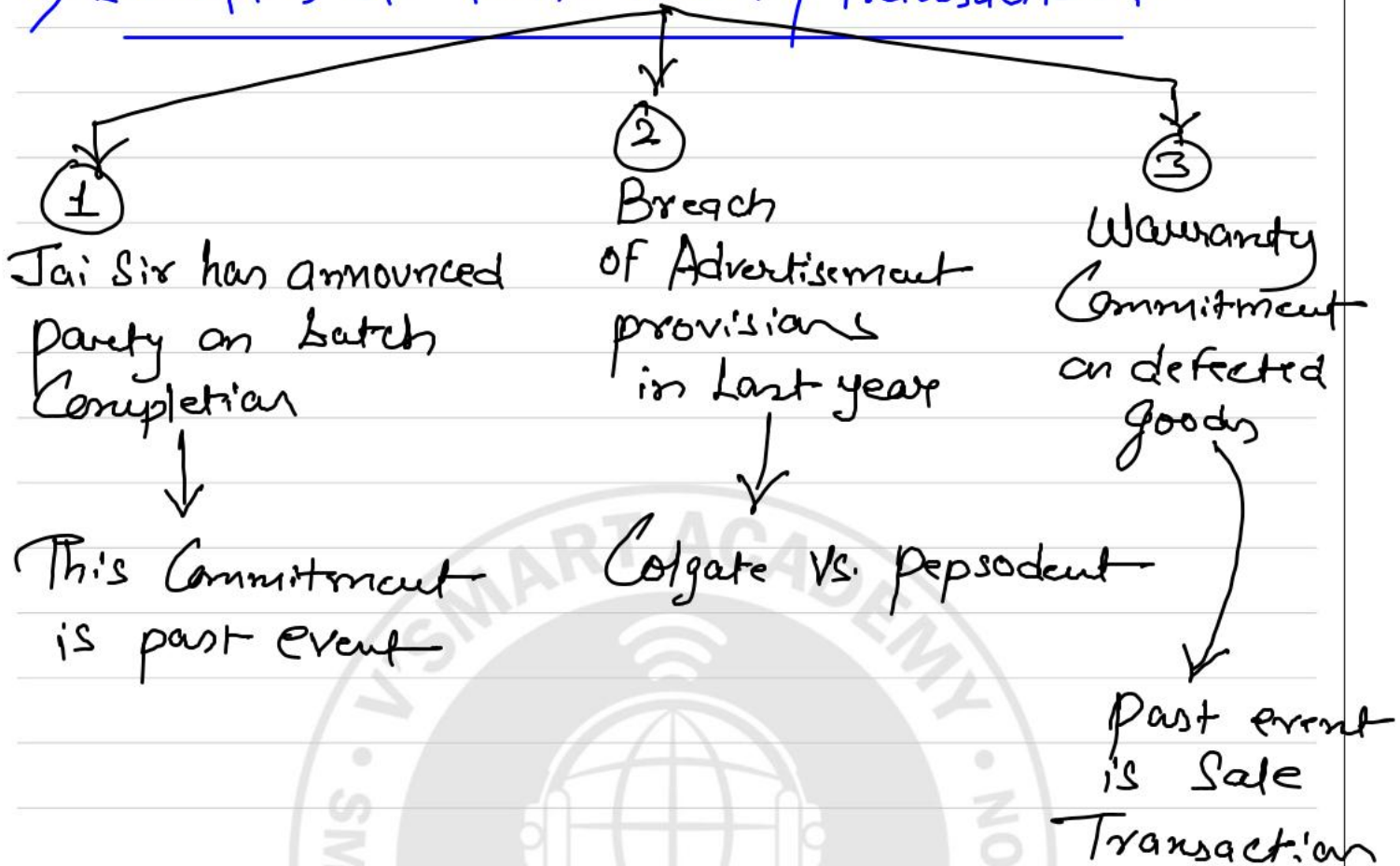


# AS 29 - Summary

- 1) AS 29 is applicable to the provisions of **Outflow nature.**  
(ie When some Outflow of Cash will be probable)
  - 2) AS 29 is not applicable to the **provisions on Assets** (eg. Prov. for BD, Prov. for Dep.) because **NO outflow of Cash is required.**
  - 3) AS 29 is not applicable on **Executory Contracts.**  
(Executory Contracts are such Contracts where Both parties have not fulfilled their Job)
  - 4) Define "**Obligation**" :-  
↳ It means "Promise to Pay" in Future.  
(OR)  
promise to settle the liability in future
- Note:- **Obligation shall be Checked on B's date.**  
**Obligation arise due to past event or Transaction**

## 5) Examples of Past Event/Transaction :-



## 6) Types of Obligation

Present Obligation

Chances to pay/settle are "more likely than not"  
→ i.e. probability to pay is 50% or more

Possible Obligation

Chances to pay/settle are less likely.  
↳ probability is less than 50%.  
(Check this on B/s date)

## 7) When to Record a Liability?

↓

Liability = Present obligation due to past event (+) Outflow Asset is Certain

(+) Time of payment is Fixed

Eg:- Creditors, Loans, Debentures, etc

## 8) When to Record a Provision?

Provision is a Liability of Uncertain Asset & Timing.

Provision = Present obligation due to past Event  
(+) Outflow but Uncertain (i.e. estimated)  
(+) Time of Payment is Uncertain.

Example:-

Prov. for DeComm. Liab.	(AS 10)
Prov. for DBO (Gratuity)	(AS 15)
Prov. for CTL / DTL	(AS 22)

Prov. For Removal of Oil Rig (Refer Q201)

Prov. For Guarantee Obligation (→ ←)  
(Borrower K behalf pe guarantee diya)

### 9) When to Record a Contingent Liability ?

due to possible obligation (⊗)

↓  
because of less than 50% probability of outflow

due to present obligation

↓  
But outflow can not be estimated reliably

↓  
i.e. Entity is unable to determine that how much outflow will be required to settle the obligation.

## 10) Treatment of Liability, Provision & Conting. Liab.

Liability & provision should be recorded (recognised) in the financial statement.

Contingent Liability should be disclosed only in the financial statements under notes to A/c

### Review at each B/s date :-

At each B/s date entity shall review its provision & Contingent Liability & if there is new information (or) change in circumstances then Contingent Liability can be converted into provisions.

### 11) Some Important points for provisions :-

- Provision can be recognised at Discounted Value (i.e. present value) if outflow is expected to be paid beyond 12 months.
- Provision should not be made "for future operating losses" because there is no past event.

c) If there is difficulty in estimating the Outflow for provision due to Unavailability of data (or) any past experience, it is not justified to ignore the provision.

Provision must be Created based on Industry data.

d) How to Estimate the Outflow for Provision?

There are two methods

Expected Value method



When there are more than Two possible Outcomes with different probability then provision will be Sum of Weighted Avg Probability of all Outcomes.

<u>Outflow Outcomes</u>	<u>Probability</u>	
10 lacs.	50%	5 lacs.
15 lacs.	30%	4.5 lacs.
20 lacs.	20%	<u>4 lacs.</u>

Most likely Outcome



When there are only 2 possible Outcomes, then provision is based on such Outcome which has more probability



Entity may lose a Court Case if so then need to pay Penalty of 5 lacs whose chances are 60%.



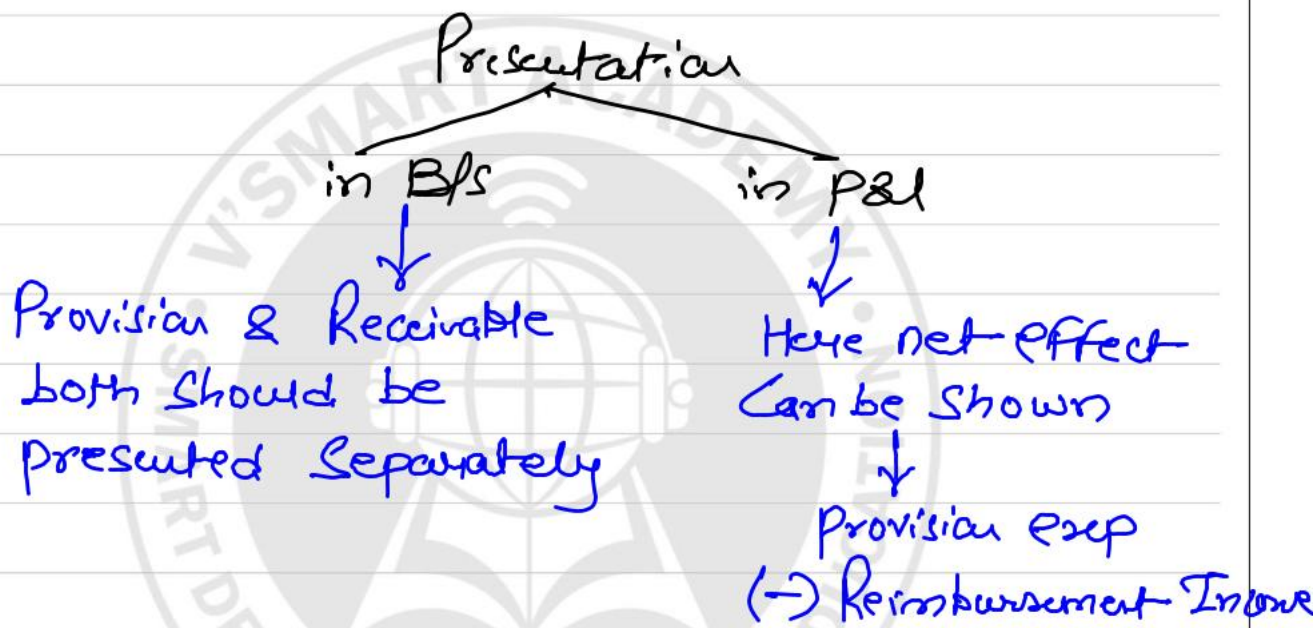
Provision should be = 13,50,000

Provision = 5 lacs.

## e) Reimbursement :- (Refer Q203)

provision should always be created at **Gross Value** (ignoring Reimbursement Receivable)

If there is a Virtual Certainty of receipt of Reimbursement than Separate Asset (Receivable) can be recorded.



## F) Onerous Contracts → How to Create provision

Any Contract in which the Unavoidable Cost of Completing the Obligation exceeds the Expected Revenue to be generated from the Contract.

Provision Amt will be lower of :-

a) Cost of meeting the obligation ;  
(or)

b) Penalty payable on Cancellation of Contract.

## g) Restructuring :-

It means **Change in the manner of operating Business.**

Such as **discontinuing any segment**  
**Changing the structure of Business**  
Such as replacing the employees of any segment/department.

## Effect of Restructuring :-

- Staff Termination & Compensation
- Training to New Employees
- Relocation of Assets from one plant to another

## Provision for Restructuring

When to record provision?



**Condition 1 = When there is a detailed formal plan of restructuring is available**  
(Plan on employees exit, Assets to be sold, Relocation details)

What are the expenses to be considered for provision?

↓  
Provision for all direct expenses

Such as  
Compensation payable to employees.

These items are not considered for provision

↓  
Staff Training Cost  
Relocation Cost

Condition 2 = Such plan is  
announced to the affected  
parties

## 12) Contingent Asset

Whenever the probability to recover/earn is less than 50%. then it is treated as Contingent Asset.

Asset will be recorded only when there is certainty of recovery.

Contingent Asset shall be disclosed only in the financial statements

## 13) Important Concepts from Question Bank

a) Company is contaminating land regularly & there is no law for penalty yet.

However at year end, if it is virtually certain that law will be enacted soon then in the same year "Provision should be created" (Refer Q104)

b) In the business offshore oilfields where entity has obligation to remove oil rig

after the production ends. Here the part

Event is Installation of Oil Rig, Once it's installed, the obligation to remove occurs. (Refer Q201A)

In the same case, Entity has another responsibility to restore the seabed (Cleanup) because of Oil Extraction.

Here the Past Event will be the date of start of Oil Extraction.

c) Guarantor (A Ltd) gives guarantee to Bank (Lender) for loan repayment on behalf of Borrower (B Ltd)

Financial Condition of Borrower

Good (Sound)

A Ltd. Shall not make any provision but can disclose Contingent liability.

Not Good (Deteriorated)

A Ltd. Shall make a provision for repayment of loan.

(Refer Q201B)

d) Law passed in 19-20 to Upgrade the facilities But there is a deadline of 31/3/21. When Past Event will occur?



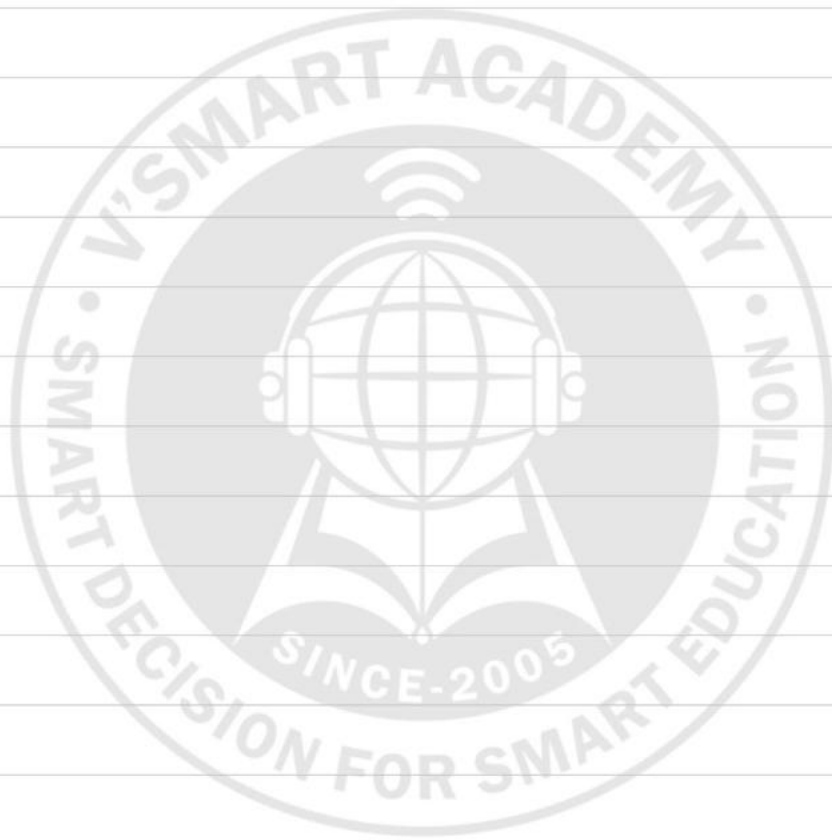
Past Event will be Crossing of Deadline  
Hence provision will be Created on Crossing  
of Deadline (Refer Q205 B)

e) Any Contingent Asset shall be recorded as actual Asset only when Question says that there is a "Virtual Certainty" of Collection.

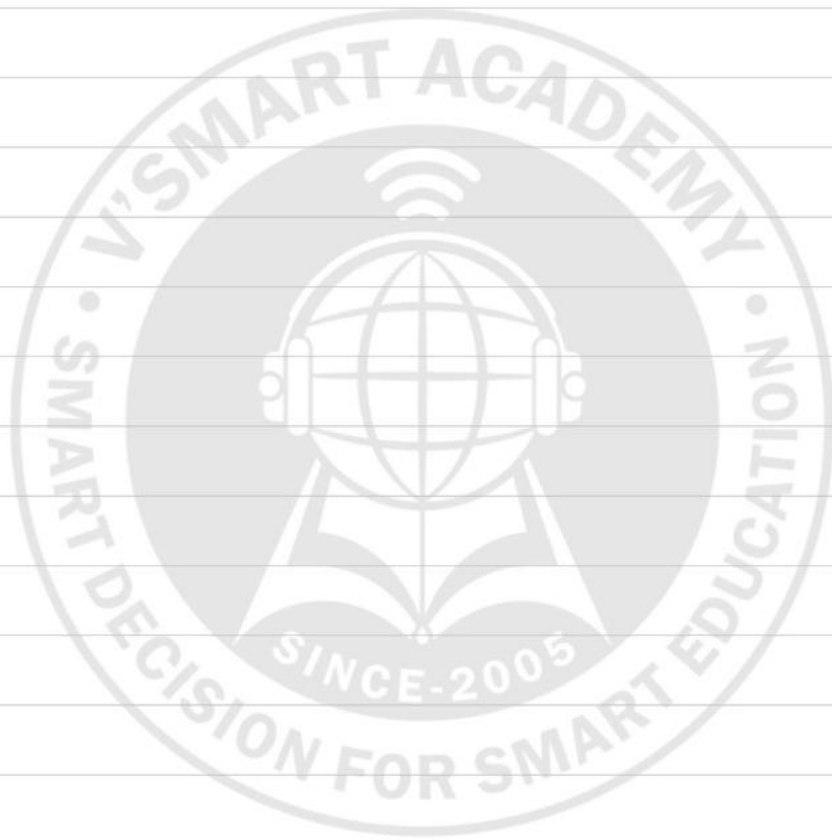
Virtual Certainty means near to 100% Surety.

If Question says there are High Chances of Winning the Case but Silent on Virtual Certainty then No need to record any Asset. (Refer Q214)

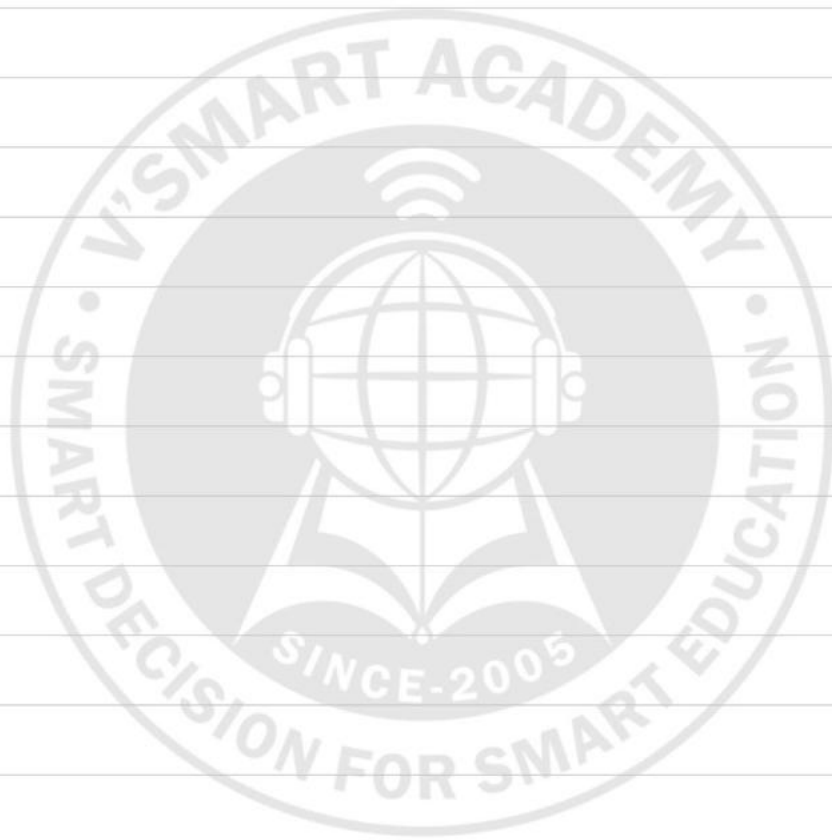
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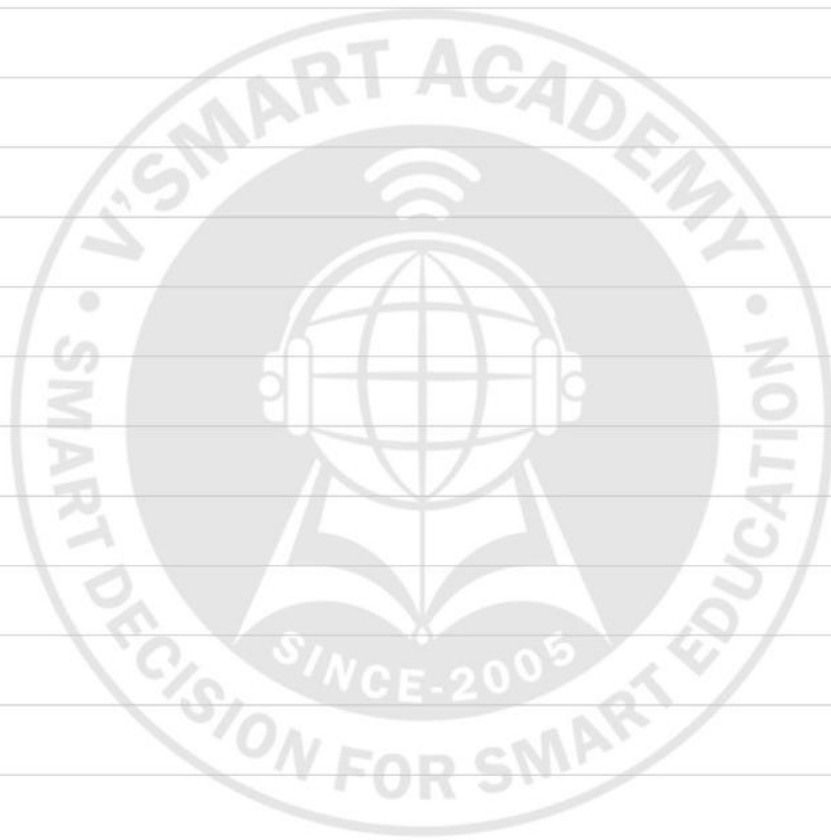
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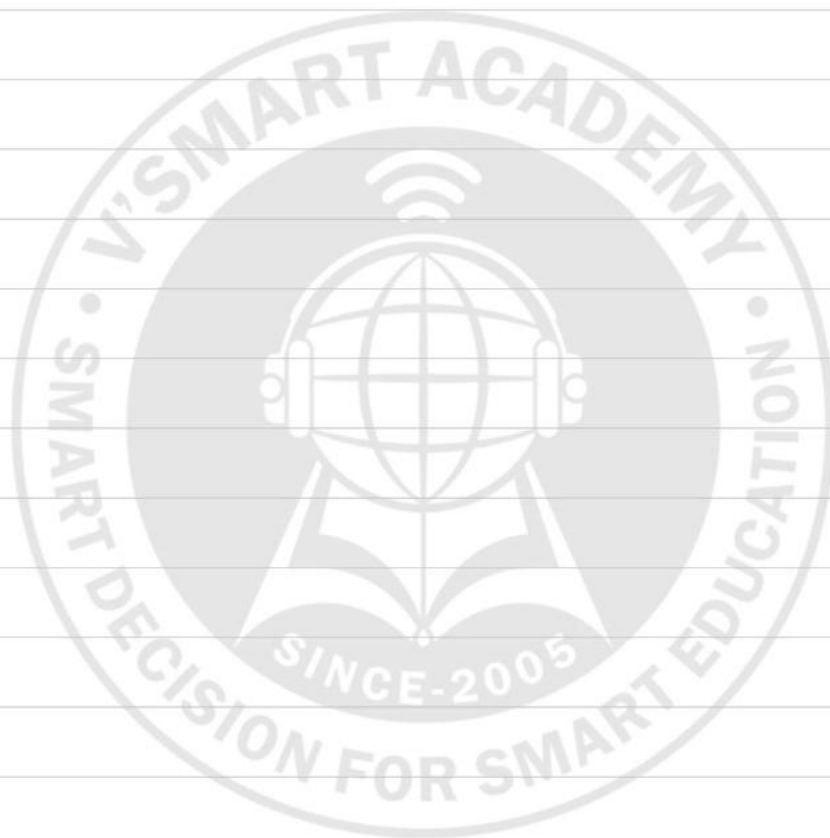
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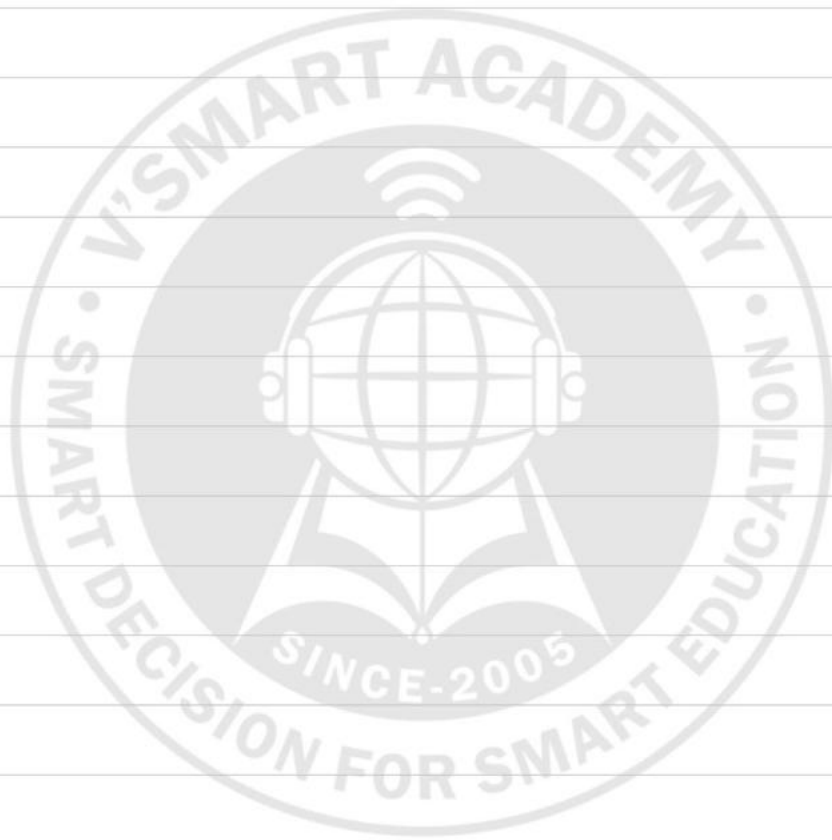
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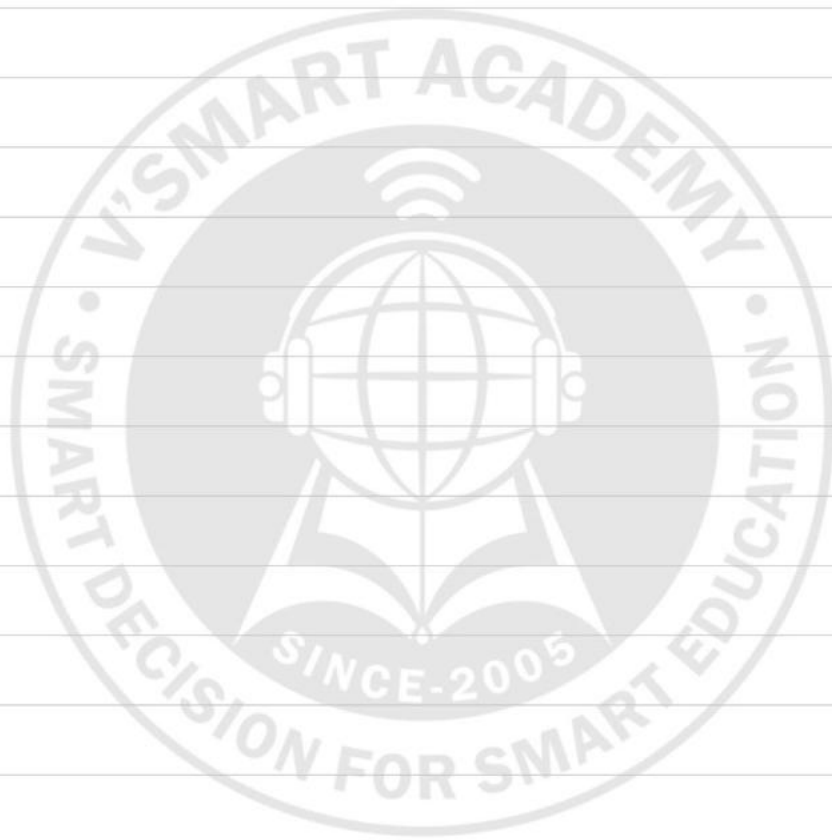
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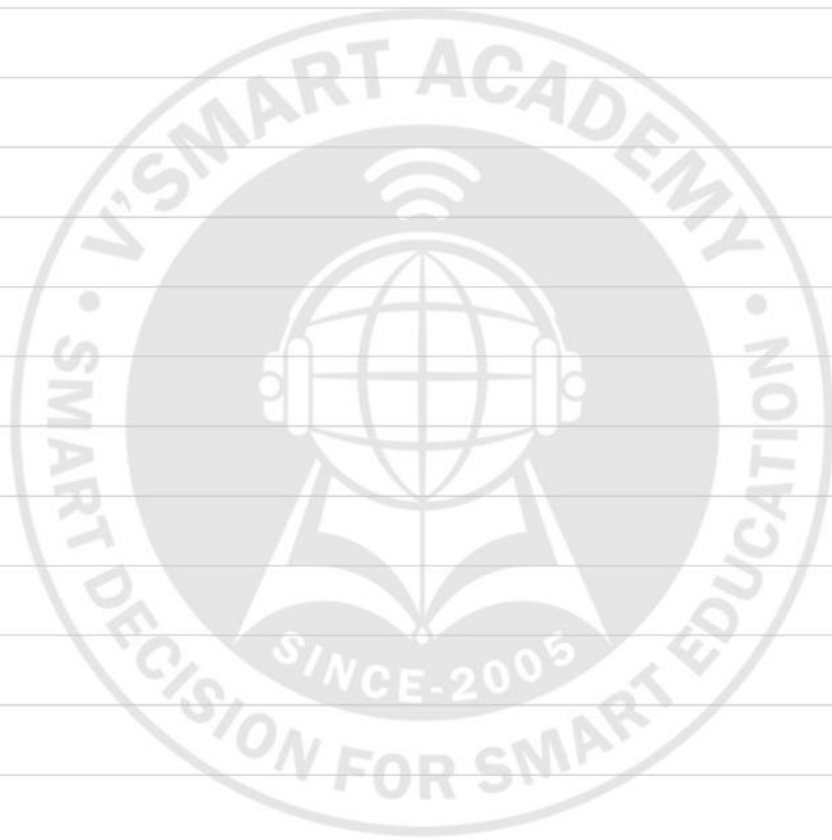
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