AS-29 :-

Provision

Adjustment to carrying amount of an asset

Provision for doubtful debts → Trade rec. adj
Provision for depreciation → PPE adj

Liability measured using substantial degree of estimation

Only this is covered under the scope of AS-29.

Examples :-

1) Provision for warranty
2) Provision for claim in a suit.
3) Provision for dismantling/decomm.

Liability → amount is certain → creditors
bank loan
Debentures issued

obligation to pay

Provision → 1: Liability → amount estimated

2: Present Obligation

Arises as a result of Past Event

2 Should exist on B/s Date

Past Event → Sale of iPhone

Present → Obligation to make good the claims.

Present oblig exist → Provision recog.

Past event	Present obligation
crime	saza
future event	Present Obligation
crime	×

Obligation → Duty or Responsibility to act in a specific manner.

Legally Enforceable Statutory Requir.

OR

Business customs Business Practice

12 Nov → Batch 1 → Sep 25
1 Dec → Batch 2 → May 25

23rd Nov → 1 week

left overs

revisions

2nd rev.

Present obligation as a result of past events.

Obligation - Reliable Estimate

Obligation settlement :- outflow of resources embodying future economic benefits.

↓

Probable

Chances of happening

Probable	Possible	Remote
>50%	upto 50%	less than 10%
	↓ Contingent Liability	

REVIEW OF PROVISIONS

↓

AT EVERY B/S DATE

↓

BEST ESTIMATE

↓

RECOGNISE

Outflow no longer probable

↓

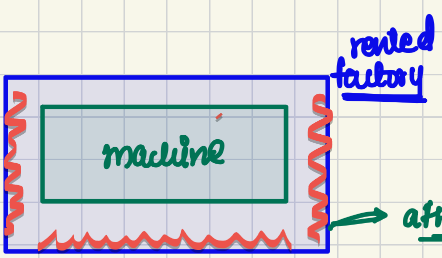
provision should be reversed

↓

if outflow seems possible, then disclose as contingent liability.

↓

if outflow seems remote then no needs to disclose even as a contingent liability.



after 10y

restore in original state

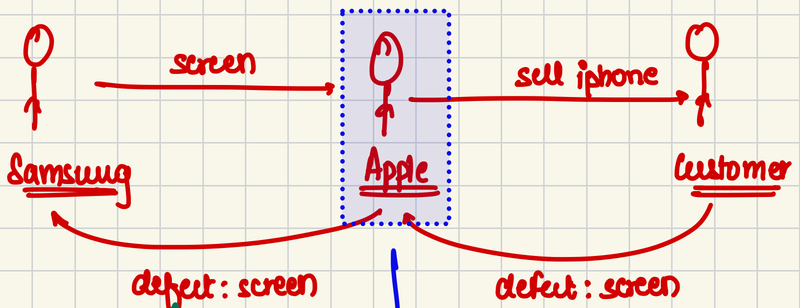
↓

cost → dismantling / decomm. → PPE cost +

PV = 100000

AS-10 :- PPE a/c Dr. 100000
AS-29 :- To provision for dismantling / decomm 100000
↓
discounted to its PV.

Reimbursement receivable on settling an obligation



Samsung agrees to reimburse
↓
Virtually certain
↓
Only then Apple will recognise the reimbursement

Provision for warranty → Liability

Reimbursement for defect → Asset → Amount

not exceed

① Recognition of reimbursement
↓
When it is virtually certain

② Amount to be recognised

Reimbursement amount < Provision amount

③ Presentation

B/S → Asset and liability will be recognised separately.

P/L → Net amount of Provision Expense and reimbursement income can be presented.

RECOGNITION OF PROVISIONS

Present obligation as a result of past events.

CONDITION 1

Obligation - Reliable Estimate

CONDITION 2

Obligation settlement :- outflow of resources embodying future economic benefits.

CONDITION 3

Probable

Chances of happening

- Probable — 75%.
- Possible — upto 50%. → Contingent Liability
- Remote — less than 10%.

CONTINGENT LIABILITY

CASE I :- Condition 1 not satisfied.

→ Present Obligation ⟶ Possible obligation.

CASE II :- Condition 1 is satisfied but condition 2 or 3 is not satisfied.

- reliable estimate cannot be made.
- Possible outflow of resources embodying future economic benefits.

AS-29: SUMMARY CHART

CA TEJAS SUCHAK
ACCOUNTANCY ACE

Provisions

↓ Liability — ↓ measured using estimation

↓ Present obligation exists — ↓ On B/s Date

- Arises as a result of Past Event
- Exists on B/s Date
- → Duty or responsibility to act in a specific manner.
- → Contractually enforceable
- → Legally enforceable
- → Arises because of business practice & customs.

RECOGNITION OF PROVISIONS

- Present obligations as a result of past events. &
- Probable outflow of resources embodying future economic benefits. &
- Reliable Estimate can be made

Probable : chances of happening 75%.

REVIEW OF PROVISIONS

- At each B/s Date
- Will be recognised / reversed based on the best estimate
- If outflow of resources is no longer probable, then reverse the provision & disclose as Contingent Liability.

* AS-29 covers only provision related to Liability.
* Provisions that are an adjustment to carrying amount of an asset are not covered under AS-29.

IMP :- Provision owed to a third party. Recognise them even if identity not known.

IMP :- If a new law requires damages caused by the past actions of an entity to be rectified, provision will be recognised for such rectification in the year in which such new law will be enacted.

IMP :- If on settlement of a provision, entity will receive reimbursement for the same. reimbursement will be recognised when :-
It is virtually certain to be received.

* Amount of reimbursement < Amount of provision

* Presentation :- B/s :- Reimbursement : Separate Asset.
Provision : Separate Liability.

P/L : Net amount (Prov Exp- Reimb. income) will be presented.

IMP :- Provision for decommissioning / dismantling will be recognised at its PV.

CONTINGENT LIABILITY

* Relate it to the three conditions of recognition of provision.

CASE I :- Possible Obligation (condition 1 of recognition not satisfied)

No need to look at cond. 2 or 3.

CASE II :- Present obligation (condition 1 satisfied)

- Possible outflow of resources.
- OR
- Reliable Estimate cannot be made.

$\boxed{\text{Possible : chances} < 50\%}$

Contingent liability will be disclosed in the Notes to Accounts in financial Statements.

If chances of outflow < 10%. i.e. Remote, no need for disclosure.

CONTINGENT LIABILITY :-

Possible obligation. existence of which is confirmed by happening or non- happening of uncertain future event not wholly within the control of the entity.

CONTINGENT ASSET

→ Possible Asset. existence of which is confirmed by happening or non- happening of uncertain future event not wholly within the control of the entity.

Neither recognised nor disclosed in Financial Statements.

(BOD) Governing Bodys Report → Disclose.

ONEROUS CONTRACT

↓ Loss making contract.
↓ Provision will be recognised
↓
Amount :- Lower of
1. Costs incurred in fulfilling the contract.
2. Compensation arising from failure to fulfill.

RESTRUCTURING & ITS PROVISION

Restructuring :- Planned & Controlled activity of management. that changes :-

1. Scope of business.
2. Nature of conducting business.

Provision will be recognised for restructuring and will include only the costs directly associated with restructuring.