Prudence → Anti losses/exp

→ Exp/loss Dr.
→ To exp pay.

1crore x 1L x 0.00001 on the date of sale

STUDENT NOTES

Provision for Baddebts x
Prov for depn x

DEFINITION OF VARIOUS TERMS

Liability
estimated amount

PROVISION

A Provision is a
- Liability → Obligation to pay
- Measured using a substantial degree of estimation.

LIABILITY

31/3

A Liability is a Present Obligation of the enterprise

PRESENT OBLIGATION

- A Present obligation arises as a result of PAST EVENT.
- To be called a present obligation, such obligation should exist on B/S Date.
- When it is not probable that a present obligation exists, the enterprise should disclose it as a contingent liability.

OBLIGATION

- Duty or responsibility to act in a specific manner.

-- May or may not be legally enforceable.

-- Contract, stat. req. – legally enfor.

-- Normal buss. Practices, buss. customs, maintaining good buss. relations- not legally enf.

EXAMPLE- WARRANTY CLAIMS.

RECOGNITION OF PROVISIONS

- A Provision should be recognised only when the following 3 conditions are satisfied :-

1. An enterprise has present obligation as a result of past event; (obligations i.e. costs/expenditures that can arise as a result of future activities of enterprise not to be recognised as provisions.)
2. It is probable that an outflow of resources embodying future economic benefits (costs>benefits) will be required to settle the obligation; AND
3. Reliable estimate of the amount of obligation can be made.

cash outflow → costs
cash inflow → benefits

RELIABLE ESTIMATE

A Provision should
be recognised only when a reliable estimate of the amt. of obligation can be made.
If such estimate cannot be made, disclose such liability as a contingent liability

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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 ① 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	×

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

23rd Nov → 1 week → left overs, revisions, 2nd rev.

Obligation

Duty or Responsibility to act in a specific manner.

Legally Enforceable Statutory Requir. OR Business customs Business Practice

Recognition of Provisions

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

Review of Provisions

↓

AT EVERY B/S DATE

↓

BEST ESTIMATE

↓

RECOGNISE

Outflow no longer probable

↓

provision should be reversed

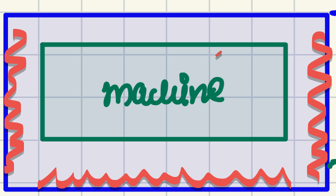
&

If outflow seems possible, then disclose as contingent liability.

&

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

rented factory



after 10y

restore in original state

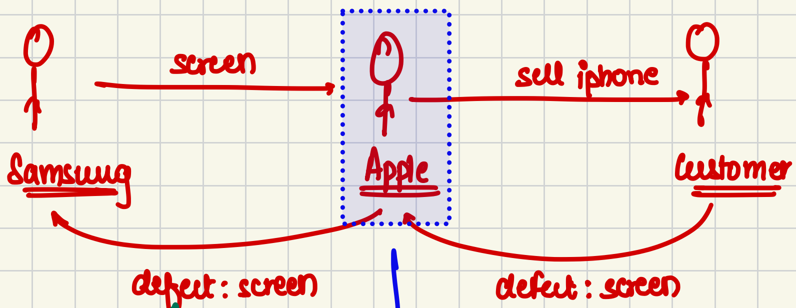
↓

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

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.

AS-29: PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSET

STUDENT NOTES

PROBABLE OUTFLOW OF RESOURCES EMBODYING FUTURE ECONOMIC BENEFITS

PROBABLE :- When the likelihood of the happening of the event is greater than the likelihood of it not happening, such event is called probable. (LIKELIHOOD IS > 50%)

- *When the likelihood of outflow of resources is greater than 50%, it is called probable outflow of resources.*
- *Where the outflow of resources is not probable:- disclose as contingent liability unless the chances are outflow is REMOTE(chances<10%). In this case even disclosure is not required.*

St. 1st. Accounting est.

REVIEW OF PROVISIONS

- *A Provision should be reviewed at each B/S date & also be adjusted to reflect the Best Estimate(Most Reliable Estimate).*
- *If outflow of resources is no longer PROBABLE for settlement of an obligation, the provision needs to be reversed.*

Outflow - Probable → Possible → C.L. disc.

IMPORTANT POINTS

- *A provision can be used only for the purpose for which it is made.*
- *Provisions which are adjustments to carrying amounts of assets such as*
  - *Doubtful debts*
  - *Depreciation*
  - *Impairments*

  Assets carrying amount : adjust

  are not covered by this AS. This AS covers only provisions in respect of liabilities.
- *An obligation is always owed to a third party. It is not necessary to know the identity of the third party, obligation may be owed to the public at large.*
- *If a new law requires the damage caused by an enterprise by its past actions to be rectified, such event(damage caused by an enterprise) will be considered an obligating event in the year in which such damage needs to be rectified*
- *Provision not to be discounted to its PV.* Exception : Provision for dismant/deco.
- *If an expenditure is expected to be reimbursed from third party on settling an obligation, such reimbursement should be recognised only when it is VIRTUALLY CERTAIN that reimbursement will be realised. It is treated as a separate asset & its amount should not exceed amount of provision. In P&L net amt. may be presented.*

CA Tejas Suchak