AS-29: SUMMARY CHART

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ACCOUNTANCY ACE

Provisions

↓ Liability ↓ measured using estimation

Liability → Present obligation exists / On B/s Date

Present obligation exists → 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. existance 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. existance 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.

STUDENT NOTES

1. **For TDS of ₹ 2.39 = Recognition:** As per AS-29, Provision should be recognized if following conditions are satisfied –

Condition (1)	Condition (2)	Condition (3)
Present Obligation as a result of past event.	Outflow of Resources to settle the obligation is probable.	Reliable Estimate of the amount.
Liability for Income Tax existed on the B/S date, as per Demand. There is a present obligation.	There will be an outflow of resources to settle the obligation on account of no traceability of TDS Certificates.	Tax Liability is ascertained at ₹ 2.39 Lakhs, as per the Demand Notice.

Since there is a probability of outflow of resources and also the amount can be quantified on account of non-traceability of TDS Certificates, a provision may be made for ₹ 2.39 Lakhs in the books.

2. **For Balance Amount:** TDS Certificates for ₹ 5.13 Lakhs (₹ 7.52 Lakhs **Less** ₹ 2.39 Lakhs) have been submitted and the Company has filed a rectification with the Assessing Officer. Therefore, the possibility of an outflow of resources embodying economic benefits is remote. So, the Company shall not disclose it as Contingent Liability. It should be disclosed by way of a Note to Accounts.

With Effect 1.4.16 — 31.3.18 — Approval 9.4.18

QUESTION 17

Rama Ltd was involved in wage negotiations with trade unions of their organisation as on 31st March 2017. Wage revision proposals could be finalised only after obtaining the final approval from the Head Office of the Company located at Mumbai. The final approval was granted on 9th April 2018 w.e.f from 1st April 2016. The settlement covered the period from 01.04.2016 to 31.03.2018. The liability upto 31st March 2018 was disclosed on account of the above settlement in the Notes forming part of the Accounts. As an Auditor, you may advise whether such disclosure is proper.

1. **Recognition:** As per AS - 29 a Provision should be recognized if the following conditions are satisfied -

Condition (1)	Condition (2)	Condition (3)
Present Obligation as a result of past event.	Outflow of Resources to settle the obligation is probable.	Reliable estimate of the amount.
Wage revision is for the period covered by Financial Statements, i.e. 2017- 2018, and consists of the Company's present obligation.	Post Balance Sheet date events (i.e. sanction from HO) that the payment of revised wages is probable, i.e. more likely than not. H.O. sanction - outflow of resources is probable.	Though not quantified in the question, wage payable on the revised scale can be estimated reliably.

CA Tejas Suchak

Wages Dr.
To Provision for wages

→ AS-5 → P&L
→ AS-29 → Provision
} → Accounting Effect
17-18 → AS-4.

Condition → Proposal submitted
EOABD → Appro Grant
Adjusting Event.

17-18 < 16-17 → exceptional items : sep. disclosure required.
17-18 → ordinary : separately disclosure not required

STUDENT NOTES

2. ***Treatment and Conclusion:*** *Since all the conditions for recognition of a Provision are satisfied, a Provision should be recognized for the year ending 31st March 2018. Also, under* ***AS - 5,*** *when items of Income and Expenses within Profit / Loss from ordinary activities are of such size, nature or incidence, that their disclosure is relevant to explain the performance of the Enterprise for the period, they should be* ***disclosed separately.*** *Since the Company has only disclosed the fact and not created any provision, the treatment given by the Company is* ***not correct.***

QUESTION 18 → Homework

A Company is in the process of finalizing its Accounts for the year ended 31st March 2018. The Company seeks your advice on the following:

(a) The Company's Sales Tax Assessment for the Assessment Year 2015-2016 has been completed on 14th February 2018 with a demand of ₹ 2.76 Crore. The Company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the Appellate Authority wherein the grounds of appeal cover Tax on additions made in the Assessment Order for a sum of ₹ 2.10 Crore.

(b) The Company has entered into a Wage Agreement in May 2018 whereby the Labour Union has accepted a revision in wage from June 2017. The agreement provided that the hike till May 2018 will not be paid to the employees but will be settled to them at the time of retirement. The Company agrees to deposit the arrears in Government Bonds by September 2018.

Answer:

Since the Company is not appealing against the addition of ₹ 0.66 Crore, the same should be provided for in its Accounts for the year ended on 31st March 2018. The amount paid under protest can be kept under the heading "Loans and Advances" and disclosed along with the Contingent Liability of ₹ 2.10 Crore.

2. The Arrears for the period from June 2017 to March 2018 are required to be provided for in the Accounts of Company for the year ended on 31st March 2018.

QUESTION 19 → Homework

Skanda Ltd had made an appeal before the Income Tax Appellate Tribunal on its Income Tax Assessment. The case was lost and accordingly a demand notice for ₹ 25 Lakhs was received towards the Company's tax liability. The Company has however, preferred an appeal in the High Court before the end of the financial year, which is pending as on the Balance Sheet Date and also till the approval of Financial Statements by the Board of Directors. The Company has not provided for the liability and also feels that no disclosure is required. Comment.

STUDENT NOTES

1. **Recognition:** As per AS - 29 a Provision should be recognized if the following conditions are satisfied -

Condition (1)	Condition (2)	Condition (3)
Present obligation as a result of past event.	Outflow of resources to settle the obligation is probable.	Reliable estimate of the amount.
Liability for Income Tax existed on the B/S date, as per the Tribunal order. There is a present obligation.	There will be an outflow of resources to settle the obligation, if the Company does not win the case in the High Court.	Tax Liability is ascertained at ₹ 25 Lakhs, as per the Demand Notice.

Note: Merely because an appeal has been made before the higher appellate authorities, the character of the obligation is not lost.

2. **Treatment and Conclusion:** Since all the conditions for recognition of a Provision are satisfied, a Provision for Tax Liability ₹ 25 Lakhs should be recognized for the above financial year. The Company's contention not to make any provision or disclosure, violates AS - 29 requirements.

QUESTION 20

A claim for damages of ₹ 10 Lakhs for breach of patents and copyrights had been served on Radha Ltd in January.

The Directors sought competent legal advice on the eligibility of the claim and were advised that the claim was highly frivolous, without any basis and would not survive even in the first trial court. The Company, however, anticipates a long drawn legal battle and huge legal costs. The Company's accounts for the year ended 31st March were considered and approved by the Board of Directors on 15th May. How will you treat the above in the accounts for the year ended 31st March? claim

Answer:

(a) The Company's liability for damages, if any, will be confirmed only after the occurrence of future events, i.e. hearing by the Court. Hence, the given situation is a ***Possible Obligation.***

(b) At the Balance Sheet date, it was not probable that events subsequent thereto would confirm that a liability has been incurred.

QUESTION 21

A Company has given counter guarantees of ₹ 5 Crores to various banks in respect of the guarantees given by the said banks in favour of Government Authorities. Outstanding counter guarantees as at the end of the financial year were ₹ 4 Crores. How this information should be shown in the Financial Statements of the Company?

Q20 **Claim → ₹ 10lakhs**

Present obligation → ×
31.3 → no ruling by court.
right now → possible obligation (depends on happen. or non- happ of uncertain future event).

Probable outflow → legal advice → claim will defended.
Hence no probable outflow.
If the company feels outflow
is possible :- Contingent liab → Disclose
is remote :- Nothing needs to be done.

Legal Costs :

Present obligation (31.3.) → Exists

Outflow → probable

Estimate → Reliable.

→ Provision will be recognised.