

## PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

IAS 37 / SECTION 21  
INTRODUCTION TO IFRS, CHAPTER: 15

### LEARNING OUTCOMES

- EXPLAIN THE DIFFERENCE BETWEEN LIABILITIES, CONTINGENT LIABILITIES AND PROVISIONS.
- KNOW AND APPLY THE PRINCIPLES OF LEGAL AND CONSTRUCTIVE OBLIGATIONS.
- ANALYSE PRACTICAL EXAMPLES AND DETERMINE WHETHER THE AMOUNTS MUST BE CLASSIFIED AS PROVISIONS, CONTINGENT LIABILITIES OR CONTINGENT ASSETS.
- ACCOUNT, MEASURE AND RECOGNISE PROVISIONS
- TO BE ABLE TO PREPARE THE FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS / IFRS FOR SMES.

### PROVISIONS: IDENTIFICATION & RECOGNITION

- PROVISIONS ARE LIABILITIES WITH UNCERTAINTY REGARDING THE



### PROVISIONS: IDENTIFICATION & RECOGNITION

- FIRST STEP IS TO DETERMINE WHETHER THERE IS ANY UNCERTAINTY
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  - A PROVISION IS ONLY RECOGNISED WHEN:
    - THE ENTITY HAS A PRESENT LEGAL – OR CONSTRUCTIVE OBLIGATION TO FORFEIT ECONOMIC BENEFITS AS A RESULT OF EVENTS IN THE PAST;
    - IT IS PROBABLE THAT AN OUTFLOW OF RESOURCES EMBODYING ECONOMIC BENEFITS WILL BE REQUIRED TO SETTLE THE OBLIGATION, AND
    - A RELIABLE ESTIMATE OF THE OBLIGATION CAN BE MADE
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## PROVISIONS: IDENTIFICATION & RECOGNITION

- PRESENT OBLIGATION:
  - LEGAL OBLIGATION → ENFORCEABLE BY LAW
  - CONSTRUCTIVE OBLIGATION → ACTIONS OF AN ENTITY CREATES A VALID EXPECTATION
  - EX 15.4 & 15.5 & 15.6 (SS)

## PROVISIONS: MEASUREMENT

- @ BEST ESTIMATE
- TIME VALUE OF MONEY MATERIAL → DISCOUNT (EX 15.7 LATER)
- TAKE INTO ACCOUNT ALL PROBABILITIES
- NB! REMEMBER THAT MEASUREMENT IS AFTER IDENTIFICATION AND RECOGNITION. THEN YOU DO NOT EVALUATE THE PROBABILITY ANYMORE, YOU HAVE ALREADY DETERMINED THAT IT IS PROBABLE, NOW ALL PROBABILITIES SHOULD BE TAKEN INTO ACCOUNT AND ADDED – EX. 15.8

## PROVISIONS: SUNDRY ASPECTS

- RIGHT OF RECOVERY AGAINST A THIRD PARTY
  - RECOGNISE THIS AS A SEPARATE ASSET WHEN YOU ARE FACTUALLY CERTAIN, MAY NOT OFFSET
  - IN THE STATEMENT OF PROFIT/LOSS AND OCI THE INCOME AND EXPENSE LEG MAY BE SET OFF
  - AMOUNT OF RECOVERY MAY NOT EXCEED THE PROVISION
  - EX 15.9

## PROVISIONS: SUNDRY ASPECTS

- FUTURE OPERATING LOSSES
  - MAY NOT RECOGNISE, REFERS TO FUTURE EVENTS, THUS NOT A PRESENT OBLIGATION

## PROVISIONS: SUNDRY ASPECTS

- ONEROUS CONTRACTS
  - A CONTRACT IN WHICH THE UNAVOIDABLE COSTS OF FULFILLING THE OBLIGATIONS EXCEEDS THE ECONOMIC BENEFITS EXPECTED TO BE RECEIVED UNDER IT
  - RECOGNISE THE OBLIGATION @:
    - LOWER OF:
      - THE LOSS THAT WOULD BE INCURRED BY SPECIFIC FULFILMENT OF THE CONTRACT, AND
      - THE LOSS INCURRED IF THE CONTRACT WERE TO BE CANCELLED AND THE PAYMENT OF FINES ASSOCIATED WITH THE CANCELLATION
    - EX 15.10

## PROVISIONS: SUNDRY ASPECTS

- EXECUTORY CONTRACTS:
  - NEITHER OF THE PARTIES INVOLVED HAS PERFORMED / BOTH HAVE PERFORMED TO AN EQUAL EXTENT
  - ONLY RECOGNISE WHEN ONE OF THE PARTIES HAVE PERFORMED
  - EX 15.11

## PROVISIONS: SUNDRY ASPECTS

- RESTRUCTURING
  - IFRS FOR SMES

## PROVISIONS: DISCLOSURE

- NB – P435
- EX 15.12

### CONTINGENT LIABILITIES

- A CONDITION OR CIRCUMSTANCE OF WHICH THE EVENTUAL RESULT, BE IT BENEFICIAL OR PREJUDICIAL, WILL ONLY BE CONFIRMED UPON THE OCCURRENCE OR NON-OCCURRENCE OF ONE OR MORE UNCERTAIN FUTURE EVENTS, BEYOND CONTROL OF THE ENTITY.

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| <ul style="list-style-type: none"> <li>POSSIBLE OBLIGATION</li> </ul> <p style="text-align: center;">↓</p> <ul style="list-style-type: none"> <li>UNCERTAINTY ABOUT THE EXISTENCE</li> </ul> | OR | <ul style="list-style-type: none"> <li>ACTUAL PRESENT OBLIGATION</li> </ul> <p style="text-align: center;">↓</p> <ul style="list-style-type: none"> <li><b>IMPROBABLE</b> THAT RESOURCES WILL BE UTILISED TO SETTLE THE OBLIGATION, OR THE INABILITY TO MEASURE THE AMOUNT RELIABLY.</li> </ul> |
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### CONTINGENT LIABILITIES

- NOT RECOGNISED, ONLY DISCLOSED
- EX 15.13

### DIFFERENCE BETWEEN PROVISION AND CONTINGENT LIABILITY

- THE DEGREE OF FULFILLING THE REQUIREMENTS OF IDENTIFICATION (DEGREE OF UNCERTAINTY)
- PROVISION: THERE IS CERTAINTY ABOUT THE EXISTENCE OF THE OBLIGATION, THE UNCERTAINTY IS WRT THE TIMING AND AMOUNT OF SETTLEMENT
- CONTINGENT LIABILITY: THERE IS UNCERTAINTY ABOUT THE EXISTENCE OF THE LIABILITY (POSSIBLE OBLIGATION) OR THERE IS TOO MUCH UNCERTAINTY ABOUT THE TIMING AND THE AMOUNT OF THE ECONOMIC RESOURCES (IMPROBABLE THAT ECONOMIC RESOURCES WILL BE REQUIRED OR THE AMOUNT CAN NOT BE MEASURED RELIABLY)
- EX 15.1



