



IFRS IN BRIEF

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

SCOPE

IAS 37 applies to all provisions, contingent liabilities and contingent assets, except those resulting from executory contracts, (unless the contract is onerous), and those covered by another standard including:

- Financial instruments in scope of IFRS 9 *Financial Instruments*
- Income taxes in scope of IAS 10 *Income taxes*
- Lease in scope of IFRS 16 *Leases*, except for onerous short term, or low value leases
- Employee benefits in scope of IAS 19 *Employee Benefits*
- Insurance contracts in scope of IFRS 17 *Insurance Contracts*
- Contingent consideration in scope of IFRS 3 *Business Combinations*
- Revenue related provisions in scope of IFRS 15 *Revenue from Contracts with Customers*

PROVISIONS

Provisions arise when an entity has

- A present obligation as a result of a past event
- It is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation; and
- A reliable estimate of the amount required to settle it can be made

If the above requirements are met a provision is recognised.

Provisions should be recognised as the best estimate of the expenditure required to settle the obligation at the end of the reporting period. Risks and uncertainties

should be taken into account in coming up with your estimate.

Provisions should be discounted to present value if the impact of discounting is material. The discount rate shall be a pre-tax rate that reflects the time value of money and the risks associated with the liability. Discount rates should not reflect risks for which the cash flows have already been adjusted.

Reimbursements

When expenditure to settle provisions is expected to be reimbursed by another party, including insurers, the reimbursement shall only be recognised when it is virtually certain that the reimbursement will be received.

A reimbursement receivable shall be recognised as a separate asset, however, in the income statement, the expense relating to the provision and the related reimbursement income can be presented net.

Specific applications

- *Future Operating Losses*
Provisions are never recognised for future operating losses.
- *Onerous Contracts*
Onerous contracts are contracts in which the unavoidable costs of meeting the obligations under contract exceed the benefits expected to be obtained. The unavoidable costs are the lower of the net costs to exit the contract or the costs to fulfil the contract.

If contracts are onerous a provision is recognised in relation to it. Before recognising an onerous contract all assets related to that contract should have impairment recognised against them in accordance with IAS 36 *Impairment of Assets*.

- *Restructuring*

A constructive obligation relating to a restructuring arises, and a provision should be recognised when a detailed formal plan has been created, identifying the location, timing and number of staff impacted; and a valid expectation has been created in those that will be affected.

Restructuring provisions should only reflect costs necessary to implement the restructure and not costs associated with ongoing operations.

CONTINGENT LIABILITIES

Contingent liabilities are either

- A possible obligation that arose from past events, but their existence will only be confirmed by one or more uncertain future events not fully within the control of the entity
- A present obligation that arose from past events but is not recognised because it is either
 - Not probable that an outflow of resources will be required to settle the obligation; or

- The obligation cannot be measured with sufficient reliability

Contingent liabilities are not recognised.

Unless the possibility of an outflow of resources is remote an entity shall disclose a description of the nature of the contingent liability and if practicable an estimate of the financial effect, and the uncertainties associated with the timing and amount of the potential outflows.

CONTINGENT ASSETS

Contingent assets are possible assets that arise from past events, but their existence will only be confirmed by one or more uncertain future events not fully within the control of the entity.

Contingent assets are not recognised.

Where the inflow of economic benefit is probable, the entity shall disclose a description of the contingent asset and if practicable an estimate of the expected financial effect.

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