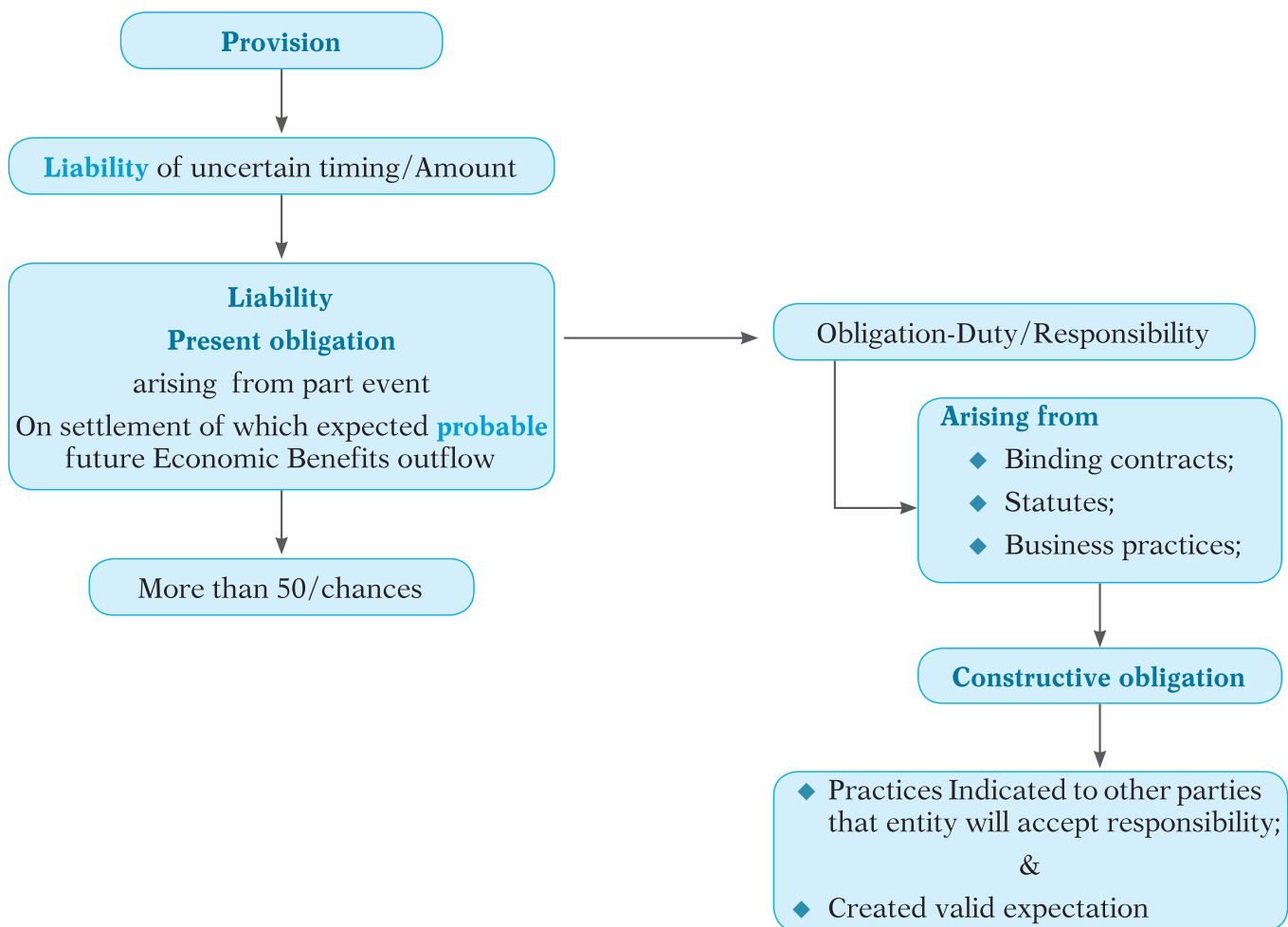


4

IND AS 37 – PROVISIONS, CONTINGENT LIABILITIES, AND CONTINGENT ASSETS

Scope : Not applicable to

- ◆ Arising from financial Instruments (Ind AS 109) (Financial Guarantee)
- ◆ Executory contract;
- ◆ Covered by other Ind AS;



3 Conditions to Recognise provision

1. Present obligations (Legal and constructive) arising from past events;
2. Probable Future Economic benefits outflows;
3. Reliable Estimation can be made.

Examples

(1)	Provision for Depreciation	} Not a provision (Not a liability)
(2)	Provision for doubtful debts	
(3)	Provision for rent payable/salary payable	Accrued liability but not provision
(4)	Board of Directors passed Resolution to rectify errors even after warranty expired and announced to public	Provision should be made (constructive obligation). It is unavoidable as withdrawal effects goodwill;
(5)	Future operating losses	Not a provision;
(6)	Warranty on goods sold	Make a provision;
(7)	Building restoration to original condition	Make provision if building is altered;
(8)	No formal replacement policy but the entity replaces	Make provision
(9)	Smoke filter fitting is mandatory as per law; On or before 30-6-2020 - If not followed the law penalty ₹ 5L Cost of smoke filter - ₹ 100L As on 31-3-20 - Not installed;	No provision required as No liability as on 31-3-2020
(10)	Did not install till 31-3-2021	Make provision for ₹ 5L penalty only

Measurement

Estimate provision based on

- ◆ Best evidence available on the date of preparation of FS;
- ◆ Event occurring after BS date;
- ◆ Management experience;
- ◆ Independent expert opinion;
- ◆ Risk and uncertainties;

2 methods of measurement

Weighted Average of all possible outcomes (excepted value)

Apply probabilities

Single most likely outcome

- ◆ If more chances to happen recognise
- ◆ Otherwise - do not make;
- ◆ Don't multiply with probabilities

