IFRS AT A GLANCE
IAS 37 Provisions, Contingent Liabilities and Contingent Assets
**IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

Also refer:
- IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

**Effective Date**

Periods beginning on or after 1 July 1999

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### SCOPE

Excludes provisions, contingent liabilities and contingent assets arising from:
- Non-onerous executory contracts
- Those covered by other IFRSs:
  - IAS 11 Construction Contracts
  - IAS 12 Income Taxes
  - IAS 17 Leases
  - IAS 19 Employee Benefits
  - IFRS 4 Insurance Contracts.

### DEFINITIONS

- **Provision** - a liability of uncertain timing or amount.
- **Contingent liability**
  - A possible obligation that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity;
  - A present obligation that arises from past events that is not recognised because:
    - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - The amount of the obligation cannot be measured with sufficient reliability.
- **Contingent asset** - possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### RECOGNITION

**PROVISIONS**

Provisions are recognised when all the following conditions are met:
- The entity has a present legal or constructive obligation as a result of a past event
- It is probable that an outflow or economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

**CONTINGENT LIABILITIES**

Contingent liabilities are not recognised.

**CONTINGENT ASSETS**

Contingent assets are not recognised.

### MEASUREMENT

- Provisions are measured at the best estimate of the expenditure required to settle the present obligation at reporting date
- Where the provision being measured involves a large population of items (i.e. goods’ warranties), the obligation is estimated by weighting all possible outcomes by their associated probabilities.
- In determining the best estimate, the related risks and uncertainties are taken into account
  - Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used is a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability
  - The discount rate does not reflect risks for which future cash flow estimates have been adjusted.
- Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur
- Gains from the expected disposal of assets are not taken into account in measuring the provision
- Reimbursements from third parties for some or all expenditure required to settle a provision are recognised only when it is virtually certain that the reimbursement will be received. The reimbursement is treated as a separate asset, which cannot exceed the amount of the provision
- Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate
- If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is released
- Provisions are not recognised for future operating losses.

### ONEROUS CONTRACTS

- Onerous contract - one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it
- For onerous contract, the provision is recognised and measured at the lower of:
  - The costs of fulfilling the contract
  - The costs/penalties incurred in cancelling the contract.
- Before a separate provision for an onerous contract is recognised, an entity recognises any impairment loss (IAS 36 Impairment of Assets) that has occurred on assets dedicated to that contract.

### RESTRUCTURING

Restructuring provisions are only permitted to be recognised when an entity has:
- A detailed formal plan for the restructuring identifying:
  - The business or part of business concerned; principal locations affected; location, function, approximate number of employees to be compensated for termination of their services; expenditures that will be undertaken and when the plan will be implemented.
  - A valid expectation in those affected that the restructuring will be implemented.
- Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing (e.g. by a public announcement) its main features to those affected before the end of the reporting period
- Restructuring provisions only include the direct expenditures arising from the restructuring - i.e. those that are both necessarily entailed by the restructuring and not associated with the entity’s on-going activities.
For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders where you can find full lists of regional and country contacts.

Europe
Caroline Allouët  France  caroline.allouet@bdo.fr
Jens Freiberg  Germany  jens.freiberg@bdo.de
Teresa Morahan  Ireland  tmorahan@bdo.ie
Ehud Greenberg  Israel  ehudg@bdo.co.il
Ruud Vergoossen  Netherlands  ruud.vergoossen@bdo.nl
Reidar Jensen  Norway  reidar.jensen@bdo.no
Maria Sukonkina  Russia  m.sukonkina@bdo.ru
René Krügel  Switzerland  rene.kruegel@bdo.ch
Brian Creighton  United Kingdom  brian.creighton@bdo.co.uk

Asia Pacific
Wayne Basford  Australia  wayne.basford@bdo.com.au
Zheng Xian Hong  China  zheng.xianhong@bdo.com.cn
Fanny Hsiang  Hong Kong  fannyhsiang@bdo.com.hk
Khoon Yeow Tan  Malaysia  tanky@bdo.my

Latin America
Marcelo Canetti  Argentina  mcanetti@bdoargentina.com
Luis Pierrend  Peru  lpierrrend@bdo.com.pe
Ernesto Bartesaghi  Uruguay  ebartesaghi@bdo.com.uy

North America & Caribbean
Armand Capisciolto  Canada  acapisciolto@bdo.ca
Wendy Hambleton  USA  whambleton@bdo.com

Middle East
Arshad Gadit  Bahrain  arshad.gadit@bdo.bh
Antoine Gholam  Lebanon  agholam@bdo-lb.com

Sub Saharan Africa
Nigel Griffith  South Africa  ngriffith@bdo.co.za

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