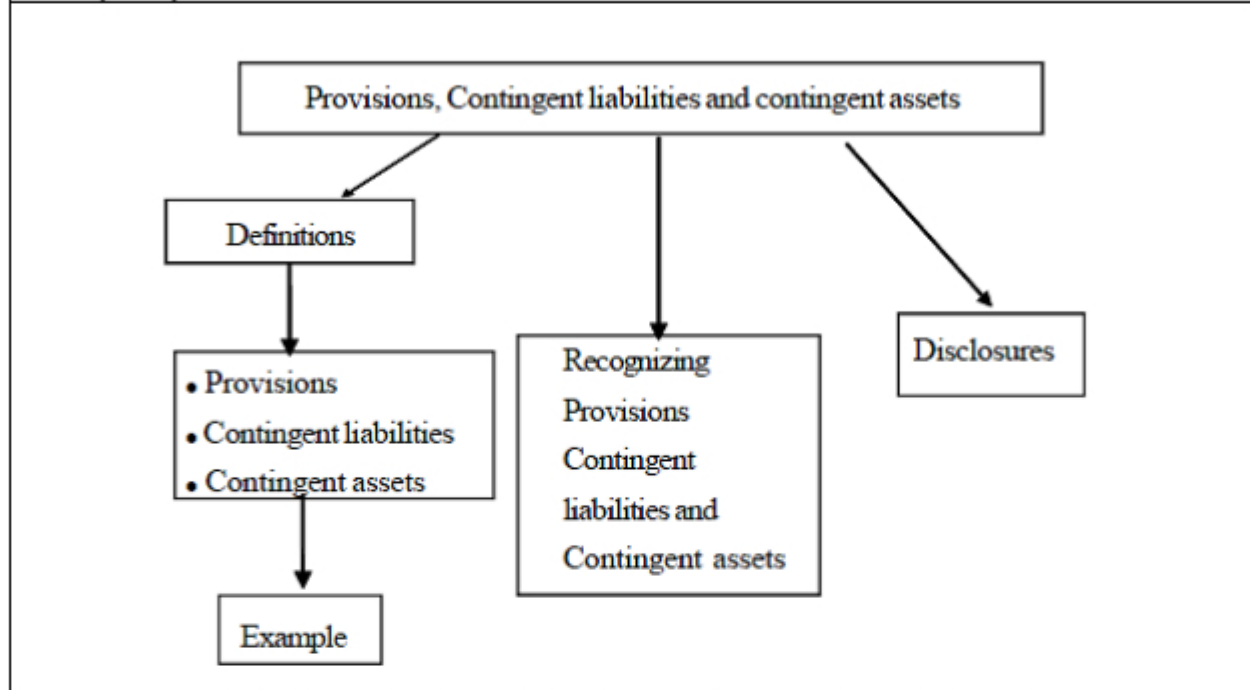


**11.6 | Provisions, Contingent liabilities and Contingent assets**

- Definitions as per LKAS 37
- Comparing provisions and contingencies
- Recognition and disclosures as per LKAS

**Concept map****Provisions****Definition as per LKAS 37:**

- Provision "is a liability of uncertain timing or amount"

**Provisions are recognized as liabilities due to the following reasons:**

- Present obligation as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligations
- Reliable estimate can be made of the amount of obligation

**Accounting for provisions:**

- If the above conditions are met, then it should be recognized as a liability in the SFP

**Examples for provisions:**

- Provisions for warranties
- Government or any other entity files a case for environmental pollution
- Employee files a case seeking compensation for wrongful termination and amount can be reliably estimated

## Contingent Liabilities

### Definition as per LKAS 37

- Contingent liability is “a possible obligation 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.”

### Contingent liabilities are not recognized as a liability due to the following reasons:

- Possible obligation as it has yet to be confirmed whether entity has a present obligation
- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- Amount of the obligation cannot be measured with sufficient reliability

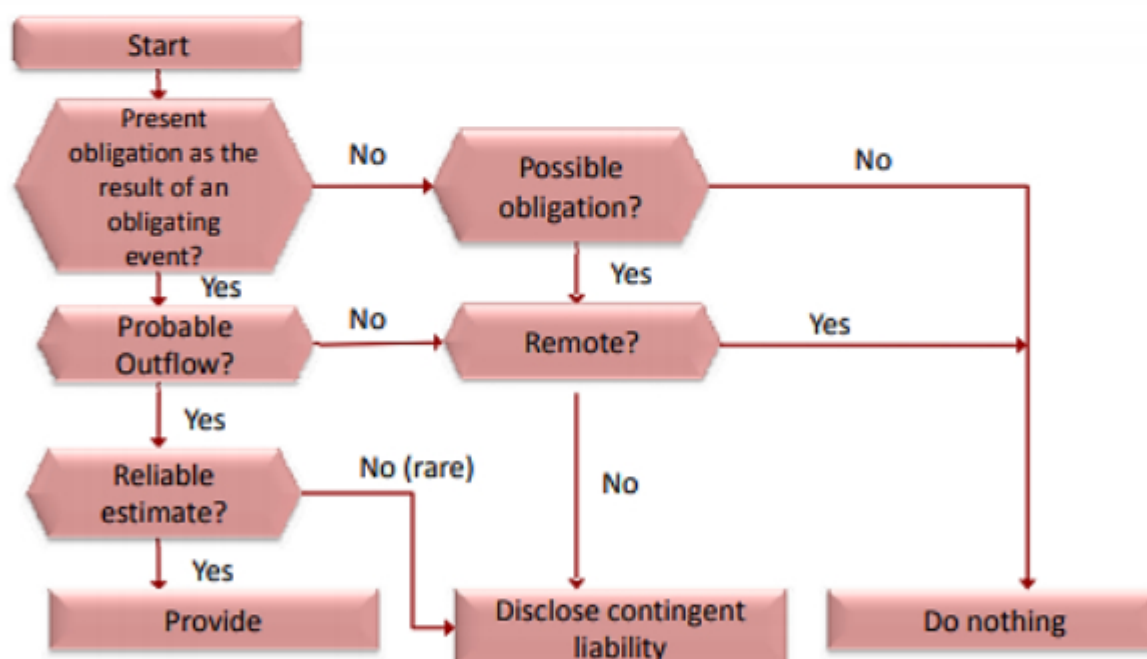
### Accounting for contingent liabilities:

- Contingent liabilities are not recognized in the financial statements
- If the possibility of an outflow of economic benefits is not remote, then it is disclosed
- If the possibility of an outflow of economic benefits is remote, then it is not disclosed

### Examples for contingent liabilities:

- Employee files a case seeking compensation for wrongful termination in the current year and amount cannot be reliably estimated
- Compensation payable due to closure of a section of the business

## Decision chart for Provisions & Contingent liabilities



**Contingent Assets****Definition as per LKAS 37:**

- Contingent asset is "a 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."

**Contingent assets are not recognized as an asset due to the following reasons:**

- Possible asset
- It is not probable that an inflow of resources embodying economic benefits will be required to settle the obligation
- Amount of the obligation cannot be measured with sufficient reliability

**Accounting for contingent assets:**

- Contingent assets are not recognized in the financial statements
- If an inflow of economic benefits is probable, then it is disclosed

**Examples for contingent assets:**

- Claim that an entity is pursuing through legal processes
- Compensation claimed for a land which was taken over by the Road Development Authority

**Disclosures**

Provisions	Contingent liabilities	Contingent Assets
1. Opening and closing balances of provisions.	1. A brief description of the nature of the liability	1. A brief description of the nature of the assets
2. Additional provisions made within the current period	2. An indication of the uncertainties relating to the amount or timing of any out flow.	2. An estimate for the financial effect
3. Provisions provided during the year		

