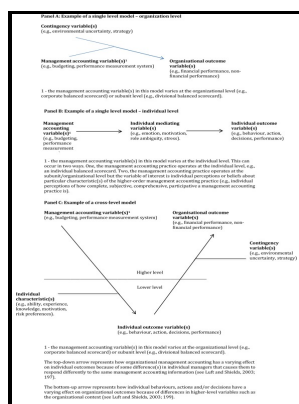


Accounting for contingencies.

Financial Accounting Standards Board - Accounting for Sales with Contingent Obligations



Description: -

- Risk management.
Contingencies in finance -- Accounting.Accounting for contingencies.

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13.3 Accounting for Contingencies

By the time that the exact amount of loss is determined, investors and creditors have already incorporated the original information into their decisions, including the uncertainty of the outcome.

Contingency Account

Such outcomes must be described generally in the financial statements if they cannot be reasonably quantified. There are numerous examples of contingent liabilities.

Accounting for Contingent Liabilities

But, the organizations have to describe these contracts in the notes of the financial statements for accounting purposes. But you need to mandatorily declare such events in the financial statements either because of a statutory requirement or their special nature. Under IFRS, the entity records the midpoint of the range.

Accounting for Lawsuit Settlements

Lawsuits are a pain for accountants because they're unpredictable. The Standard thus aims to ensure that only genuine obligations are dealt with in the financial statements — planned future expenditure, even where authorised by the board of directors or equivalent governing body, is excluded from recognition. This is because showing contingent gains in financial statements would lead to recognizing financial revenue which may never materialize.

Contingencies

In gain contingencies, we do not include any amount in the income statement until a substantial completion is reached. However, under US GAAP, the accounting for related legal costs is subject to an accounting policy election. Well, it depends on the outcome of this event.

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