

Indian Accounting Standard (Ind AS) 37

Provisions, Contingent Liabilities and Contingent Assets[#]

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Objective

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Scope

- 1 This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:**
 - (a) those resulting from executory contracts, except where the contract is onerous; and**
 - (b) [Refer Appendix 1]**
 - (c) those covered by another Standard.**
- 2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of Ind AS 109, *Financial Instruments*.
- 3 Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.
4. [Refer Appendix 1]

[#] This Ind AS was notified vide G.S.R. 111(E) dated 16th February, 2015 and was amended vide Notification No. G.S.R. 365(E) dated 30th March, 2016 and G.S.R. 310(E) dated 28th March, 2018.

5 ¹When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

- (a) Omitted*;
- (b) income taxes (see Ind AS 12, *Income Taxes*);
- (c) leases (see Ind AS 17, *Leases*). However, as Ind AS 17 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases;
- (d) employee benefits (see Ind AS 19, *Employee Benefits*);
- (e) insurance contracts (see Ind AS 104, *Insurance Contracts*). However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of Ind AS 104;
- (f) contingent consideration of an acquirer in a business combination (see Ind AS 103, *Business Combinations*); and

¹ Substituted vide Notification No. G.S.R. 365(E) dated 30th March, 2016 and, thereafter, substituted vide Notification No. G.S.R. 310(E) dated 28th March, 2018. Prior to substitution in 2016, the paragraph read as under:

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

- (a) [Refer Appendix 1]
- (b) income taxes (see Ind AS 12, *Income Taxes*);
- (c) leases (see Ind AS 17, *Leases*). However, as Ind AS 17 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases;
- (d) employee benefits (see Ind AS 19, *Employee Benefits*);
- (e) insurance contracts (see Ind AS 104, *Insurance Contracts*). However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of Ind AS 104;
- (f) contingent consideration of an acquirer in a business combination (see Ind AS 103, *Business Combinations*); and
- (g) revenue from contracts with customers (see Ind AS 115, *Revenue from Contracts with Customers*). However, as Ind AS 115 contains no specific requirements to address contracts with customers that are, or have become, onerous, this Standard applies to such cases.

Prior to substitution in 2018, the paragraph read as under:

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

- (a) construction contracts (see Ind AS 11, *Construction Contracts*);
- (b) income taxes (see Ind AS 12, *Income Taxes*);
- (c) leases (see Ind AS 17, *Leases*). However, as Ind AS 17 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases;
- (d) employee benefits (see Ind AS 19, *Employee Benefits*);
- (e) insurance contracts (see Ind AS 104, *Insurance Contracts*). However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of Ind AS 104; and
- (f) contingent consideration of an acquirer in a business combination (see Ind AS 103, *Business Combinations*).

* Refer Appendix 1

(g) revenue from contracts with customers (see Ind AS 115, *Revenue from Contracts with Customers*). However, as Ind AS 115 contains no specific requirement to address contracts with customers that are, or have become, onerous, this Standard applies to such cases.

6 ²Omitted

7 This Standard defines provisions as liabilities of uncertain timing or amount. The term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

8 Other Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

9 This Standard applies to provisions for restructurings (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

Definitions

10 The following terms are used in this Standard with the meanings specified:

A provision is a liability of uncertain timing or amount.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);

² Refer Appendix 1. Substituted vide Notification No. G.S.R. 365(E) dated 30th March, 2016 and omitted vide Notification No. G.S.R. 310(E) dated 28th March, 2018. Prior to substitution in 2016, the paragraph read as under:

6 [Refer Appendix 1]

Prior to omission in 2018, the paragraph read as under:

6 Some amounts treated as provisions may relate to the recognition of revenue, for example, where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. Ind AS 18, *Revenue*, identifies the circumstances in which revenue is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of Ind AS 18.

- (b) legislation; or
- (c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A *contingent liability* is:

- (a) 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; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A *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.

An *onerous contract* is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A *restructuring* is a programme that is planned and controlled by management, and materially changes either:

- (a) the scope of a business undertaken by an entity; or
- (b) the manner in which that business is conducted.

Provisions and other liabilities

11 Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

- (a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and

- (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

Relationship between provisions and contingent liabilities

- 12 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognised because their 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. In addition, the term ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.
- 13 This Standard distinguishes between:
 - (a) provisions – which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
 - (b) contingent liabilities – which are not recognised as liabilities because they are either:
 - (i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
 - (ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

- 14 **A provision shall be recognised when:**
 - (a) **an entity has a present obligation (legal or constructive) as a result of a past event;**
 - (b) **it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
 - (c) **a reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognised.

Present obligation

- 15 **In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.**
- 16 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:
- (a) where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and
 - (b) where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

Past event

- 17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
- (a) where the settlement of the obligation can be enforced by law; or
 - (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
- 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's balance sheet are those that exist at the end of the reporting period.
- 19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future

expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.

- 20 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.
- 21 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.
- 22 Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

Probable outflow of resources embodying economic benefits

- 23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard,³ an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).
- 24 Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable estimate of the obligation

³ The interpretation of ‘probable’ in this Standard as ‘more likely than not’ does not necessarily apply in other Indian Accounting Standards.

- 25 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the balance sheet. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.
- 26 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86).

Contingent liabilities

- 27 **An entity shall not recognise a contingent liability.**
- 28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.
- 29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.
- 30 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets

- 31 **An entity shall not recognise a contingent asset.**
- 32 Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.
- 33 Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
- 34 A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefits is probable.
- 35 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the

financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset (see paragraph 89).

Measurement

Best estimate

- 36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**
- 37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
- 38 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period.
- 39 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Example

An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of Rs 1 million would result. If major defects were detected in all products sold, repair costs of Rs 4 million would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an entity assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$$(75\% \text{ of nil}) + (20\% \text{ of } 1\text{m}) + (5\% \text{ of } 4\text{m}) = \text{Rs } 400,000$$

- 40 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an entity has to rectify a serious fault in a major plant that it has constructed for a customer, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of Rs 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.
- 41 The provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under Ind AS 12.

Risks and uncertainties

- 42 **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**
- 43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.
- 44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

Present value

- 45 **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**
- 46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.
- 47 **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

Future events

- 48 **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

- 49 Expected future events may be particularly important in measuring provisions. For example, an entity may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. The amount recognised reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.
- 50 The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

Expected disposal of assets

- 51 **Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**
- 52 Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the Standard dealing with the assets concerned.

Reimbursements

- 53 **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.**
- 54 **In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.**
- 55 Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers' warranties). The other party may either reimburse amounts paid by the entity or pay the amounts directly.
- 56 In most cases the entity will remain liable for the whole of the amount in question so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.

- 57 In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case the entity has no liability for those costs and they are not included in the provision.
- 58 As noted in paragraph 29, an obligation for which an entity is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Changes in provisions

- 59 **Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.**
- 60 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

Use of provisions

- 61 **A provision shall be used only for expenditures for which the provision was originally recognised.**
- 62 Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Application of the recognition and measurement rules

Future operating losses

- 63 **Provisions shall not be recognised for future operating losses.**
- 64 Future operating losses do not meet the definition of a liability in paragraph 10 and the general recognition criteria set out for provisions in paragraph 14.
- 65 An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An entity tests these assets for impairment under Ind AS 36, *Impairment of Assets*.

Onerous contracts

- 66 **If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.**
- 67 Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard

and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.

68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract (see Ind AS 36).

Restructuring

70 The following are examples of events that may fall under the definition of restructuring:

- (a) sale or termination of a line of business;
- (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
- (c) changes in management structure, for example, eliminating a layer of management; and
- (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.

72 **A constructive obligation to restructure arises only when an entity:**

- (a) has a detailed formal plan for the restructuring identifying at least:**
 - (i) the business or part of a business concerned;**
 - (ii) the principal locations affected;**
 - (iii) the location, function, and approximate number of employees who will be compensated for terminating their services;**
 - (iv) the expenditures that will be undertaken; and**
 - (v) when the plan will be implemented; and**
- (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**

- 73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (ie setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.
- 74 For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.
- 75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period:
- (a) started to implement the restructuring plan; or
 - (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under, Ind AS 10, *Events after the Reporting Period*, if the restructuring is material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

- 76 Although a constructive obligation is not created solely by a management decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 72 are met.
- 77 In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (eg employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a constructive obligation to restructure.
- 78 No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.**
- 79 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there

is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under Ind AS 36. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

80 A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

- (a) necessarily entailed by the restructuring; and**
- (b) not associated with the ongoing activities of the entity.**

81 A restructuring provision does not include such costs as:

- (a) retraining or relocating continuing staff;
- (b) marketing; or
- (c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

82 Identifiable future operating losses up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract as defined in paragraph 10.

83 As required by paragraph 51, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

84 For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;**
- (b) additional provisions made in the period, including increases to existing provisions;**
- (c) amounts used (ie incurred and charged against the provision) during the period;**
- (d) unused amounts reversed during the period; and**
- (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**

Comparative information is not required.

- 85 **An entity shall disclose the following for each class of provision:**
- (a) **a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;**
 - (b) **an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and**
 - (c) **the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.**
- 86 **Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:**
- (a) **an estimate of its financial effect, measured under paragraphs 36–52;**
 - (b) **an indication of the uncertainties relating to the amount or timing of any outflow; and**
 - (c) **the possibility of any reimbursement.**
- 87 In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.
- 88 Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84–86 in a way that shows the link between the provision and the contingent liability.
- 89 **Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36–52.**
- 90 It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.
- 91 **Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.**
- 92 **In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the**

information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

⁴Transitional Provisions

93 *

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Effective date

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100 As a consequence of issuance of Ind AS 115, *Revenue from Contracts with Customers*, paragraph 5 is amended and paragraph 6 is deleted. An entity shall apply those amendments when it applies Ind AS 115.

⁴ Headings and paragraphs 93-100 inserted vide Notification No. G.S.R. 310(E) dated 28th March, 2018.

* Refer Appendix 1

Appendix A

Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Appendix is an integral part of the Ind AS.

Background

- 1 The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as ‘decommissioning funds’ or ‘funds’, is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as ‘decommissioning’.
- 2 Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:
 - (a) funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.
 - (b) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.
 - (c) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realisable from the fund (based on past activity).
- 3 Such funds generally have the following features:
 - (a) the fund is separately administered by independent trustees.
 - (b) entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors’ decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund’s governing documents and any applicable legislation or other regulations.
 - (c) the contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the

fund up to the lower of the decommissioning costs incurred and the contributor's share of assets of the fund.

- (d) the contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.

Scope

- 4 This Appendix applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:
 - (a) the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
 - (b) a contributor's right to access the assets is restricted.
- 5 A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of Ind AS 109 and is not within the scope of this Appendix.

Issues

- 6 The issues addressed in this Appendix are:
 - (a) how should a contributor account for its interest in a fund?
 - (b) when a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

Accounting Principles

Accounting for an interest in a fund

- 7 The contributor shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.
- 8 The contributor shall determine whether it has control or joint control of, or significant influence over, the fund by reference to Ind AS 110, *Consolidated Financial Statements*, Ind AS 111, *Joint Arrangements*, and Ind AS 28, *Investments in Associates and Joint Ventures*. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.
- 9 If a contributor does not have control or joint control of, or significant influence over, the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with Ind AS 37. This reimbursement shall be measured at the lower of:
 - (a) the amount of the decommissioning obligation recognised; and

- (b) the contributor's share of the fair value of the net assets of the fund attributable to contributors.

Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund shall be recognised in profit or loss in the period in which these changes occur.

Accounting for obligations to make additional contributions

- 10 When a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of Ind AS 37. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

Disclosure

- 11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.
- 12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 10), it shall make the disclosures required by paragraph 86 of Ind AS 37.
- 13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of Ind AS 37.

Appendix B

Liabilities arising from Participating in a Specific Market— Waste Electrical and Electronic Equipment⁵

This Appendix is an integral part of the Ind AS.

Background

- 1 Paragraph 17 of Ind AS 37 specifies that an obligating event is a past event that leads to a present obligation that an entity has no realistic alternative to settling.
- 2 Paragraph 19 of Ind AS 37 states that provisions are recognised only for ‘obligations arising from past events existing independently of an entity’s future actions’.
- 3 The European Union’s Directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, has given rise to questions about when the liability for the decommissioning of WE&EE should be recognised. The Directive distinguishes between ‘new’ and ‘historical’ waste and between waste from private households and waste from sources other than private households. New waste relates to products sold after 13 August 2005. All household equipment sold before that date is deemed to give rise to historical waste for the purposes of the Directive.
- 4 The Directive states that the cost of waste management for historical household equipment should be borne by producers of that type of equipment that are in the market during a period to be specified in the applicable legislation of each Member State (the measurement period). The Directive states that each Member State shall establish a mechanism to have producers contribute to costs proportionately ‘e.g. in proportion to their respective share of the market by type of equipment.’
- 5 Several terms used in this Appendix such as ‘market share’ and ‘measurement period’ may be defined very differently in the applicable legislation of individual Member States. For example, the length of the measurement period might be a year or only one month. Similarly, the measurement of market share and the formulae for computing the obligation may differ in the various national legislations. However, all of these examples affect only the measurement of the liability, which is not within the scope of this Appendix.

Scope

- 6 This Appendix provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive on WE&EE in respect of sales of historical household equipment.

⁵ This Appendix is in the context of European Union. However, if similar regulations exist in other countries including India the principles as enunciated in this Appendix shall apply.

- 7 This Appendix addresses neither new waste nor historical waste from sources other than private households. The liability for such waste management is adequately covered in Ind AS 37. However, if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of this Appendix apply by reference to the hierarchy in paragraphs 10-12 of Ind AS 8. The Ind AS 8 hierarchy is also relevant for other regulations that impose obligations in a way that is similar to the cost attribution model specified in the EU Directive.

Issue

- 8 This Appendix determines in the context of the decommissioning of WE&EE what constitutes the obligating event in accordance with paragraph 14(a) of Ind AS 37 for the recognition of a provision for waste management costs:
- the manufacture or sale of the historical household equipment?
 - participation in the market during the measurement period?
 - the incurrence of costs in the performance of waste management activities?

Accounting Principles

- 9 Participation in the market during the measurement period is the obligating event in accordance with paragraph 14(a) of Ind AS 37. As a consequence, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. Because the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period. The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

Appendix C

Levies

This Appendix is an integral part of the Ind AS.

Background

1. A government may impose a levy on an entity. An issue arises when to recognise a liability to pay a levy that is accounted for in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2. This Appendix addresses the accounting for a liability to pay a levy if that liability is within the scope of Ind AS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.
3. This Appendix does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.
4. For the purposes of this Appendix, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:
 - (a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of Ind AS 12, *Income Taxes*); and
 - (b) fines or other penalties that are imposed for breaches of the legislation.

‘Government’ refers to government, government agencies and similar bodies whether local, national or international.
5. A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.
6. An entity is not required to apply this Appendix to liabilities that arise from emissions trading schemes.

Issues

7. To clarify the accounting for a liability to pay a levy, this Appendix addresses the following issues:
 - (a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?
 - (b) does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?

- (c) does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- (d) does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- (e) what is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?
- (f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Accounting Principles

- 8. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.
- 9. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
- 10. The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.
- 11. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.
- 12. If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Appendix (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.
- 13. An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:
 - (a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and
 - (b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.
- 14. An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Appendix D

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

This appendix lists the appendices which are part of other Indian Accounting Standards and makes references to Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- (i) ⁶Appendix D, *Service Concession Arrangements* and Appendix E, *Service Concession Arrangements: Disclosures*, contained in Ind AS 115, *Revenue from Contracts with Customers*.
- (ii) Appendix A, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, contained in Ind AS 16, *Property, Plant and Equipment*.
- (iii) Appendix B, *Evaluating the Substance of Transactions involving the Legal Form of a Lease* contained in Ind AS 17, *Leases*.

⁶ Substituted vide Notification No. G.S.R. 365(E) dated 30th March, 2016 and, thereafter, substituted vide Notification No. G.S.R. 310(E) dated 28th March, 2018. Prior to substitution in 2016, the paragraph read as under:

(i) Appendix C, *Service Concession Arrangements* and Appendix D, *Service Concession Arrangements: Disclosures*, contained in Ind AS 115, *Revenue from Contracts with Customers*.

Prior to substitution in 2018, the paragraph read as under:

(i) Appendix A, *Service Concession Arrangements* and Appendix B, *Service Concession Arrangements: Disclosures*, contained in Ind AS 11, *Construction Contracts*.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 37 and the corresponding International Accounting Standard (IAS) 37, Provisions, Contingent Liabilities and Contingent Assets, IFRIC 5, Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds, IFRIC 6, Liabilities arising from Participating in Specific Market-Waste electrical and Electronic Equipment and IFRIC 21, Levies, issued by the International Accounting Standards Board.

Comparison with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, IFRIC 5, IFRIC 6 and IFRIC 21

- 1 The transitional provisions given in IAS 37 and IFRIC 5 and IFRIC 6 have not been given in Ind AS 37, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- 2 Different terminology is used in this standard, eg, term ‘balance sheet’ is used instead of ‘Statement of financial position’ and ‘Statement of profit and loss is used instead of ‘Statement of comprehensive income’. Words ‘approval of the financial statements for issue’ have been used instead of ‘authorisation of the financial statements for issue’ in the context of financial statements considered for the purpose of events after the reporting period.
- 3 ⁷The following paragraph numbers have been omitted in IAS 37. In order to maintain consistency with paragraph numbers of IAS 37, the paragraph numbers are retained in Ind AS 37:
 - (i) paragraph 1(b)
 - (ii) paragraph 4

⁷ Substituted vide Notification No. G.S.R. 365(E) dated 30th March, 2016 and, thereafter, substituted vide Notification No. G.S.R. 310(E) dated 28th March, 2018. Prior to substitution in 2016, the paragraph read as under:

3. The following paragraph numbers appear as ‘Deleted’ in IAS 37. In order to maintain consistency with paragraph numbers of IAS 37, the paragraph numbers are retained in Ind AS 37 :
- (i) paragraph 1(b)
 - (ii) paragraph 4
 - (iii) paragraph 5(a)
 - (iv) paragraph 6.

Prior to substitution in 2018, the paragraph read as under:

3. The following paragraph numbers appear as ‘Deleted’ in IAS 37. In order to maintain consistency with paragraph numbers of IAS 37, the paragraph numbers are retained in Ind AS 37 :
- (i) paragraph 1(b)
 - (ii) paragraph 4

- (iii) paragraph 5(a)
- (iv) paragraph 6.

4. ⁸Paragraphs 93 to 99 related to Transitional Provisions and Effective date given in IAS 37 have not been given in Ind AS 37, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and paragraph related to Effective date are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 37, these paragraph numbers are retained in Ind AS 37.

⁸ Inserted vide Notification No. G.S.R. 310(E) dated 28th March, 2018.