IAS - 37

Provisions, Contingent Liabilities and Contingent Assets

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International Accounting Standard No 37 (IAS 37)

Provisions, Contingent Liabilities and Contingent Assets

Objective

The objective of this Standard is to ensure that appropriate bases are used for the recognition and measurement of provisions, contingent liabilities and contingent assets and the disclosure of sufficient information by means of notes, to enable users understand the nature, timing and amounts due from the above items.

Scope

1. **This Standard shall be applied by all entities in accounting for provisions, liabilities and contingent assets, except:**

   (a) those resulting from executory contracts, except when the contract is onerous and

   (b) [deleted]

   (c) those covered by another Standard.

2. This Standard does not apply to financial instruments (including guarantees) that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

3. Executory contracts are those in which the parties have not met any of the obligations to which they were committed or that both parties have partially performed, and in equal measure its commitments. This Standard does not apply to executory contracts unless they are onerous for the company.

4. [Deleted]

5. When some other standard to address a specific type of provision, contingent assets or contingent liabilities, the entity applies that Standard instead of this. For example, IFRS 3 Business Combinations addresses the treatment by an acquirer of contingent liabilities assumed in a business combination. It also treats certain types of provisions in:

   (a) IAS 11 Construction Contracts;

   (b) IAS 12 Income Taxes;

   (c) IAS 17 Leases, although this IAS 17 contains no specific requirements to deal with operating leases that are burdensome to the entity, so you have to apply this standard to such cases;

(d) IAS 19 Employee Benefits and

(e) IFRS 4 Insurance Contracts, however, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer that are different from their obligations and rights under insurance contracts within the scope of IFRS 4.

6. Some amounts treated as provisions may relate to the recognition of revenue, for example in the case of an entity gives guarantees in exchange for the perception of a certain amount or fee. This Standard does not address the recognition of revenue, as in IAS 18 Revenue, identifies the precise circumstances for their recognition, and provides practical guidelines for applying the criteria for recognition. This Standard does not change the requirements in IAS 18.

7. In this Standard defines provisions as liabilities of uncertain timing or amount. In some countries the term 'provision' is used in the context of items such as depreciation, and also to denote the recognition of impairment loss in value of some assets or doubtful debts. These are adjustments in the carrying amount of certain assets, and are not addressed in this Standard.

8. In other Standards specifies the rules to treat certain expenditures as assets or as expenses. Such issues are not addressed in this Standard. Accordingly, this Standard neither requires nor prohibits the capitalization of costs recognized when a particular provision.

9. This standard applies to provisions for restructuring (including discontinued operations). When the restructuring meets the definition of discontinued operation, could be additional disclosures required by IFRS 5 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 for which is uncertain timing or amount.

A liability is a present obligation of the entity that arises from past events, the settlement of which, and to cancel, the entity expected outflow of resources embodying economic benefits.

The event that gives rise to the obligation is any occurrence which arises an obligation of payment, legal or constructive for the entity, so that the entity has no other realistic alternative to settling that amount.

A legal obligation is one that is derived from:

(a) a contract (either from their explicit or implicit terms);

(b) legislation; or

(c) other operation of law.

A constructive obligation is one that derives from the actions of the institution itself, in which:

(a) because of an established pattern of past conduct, corporate policies are public or a declaration is made sufficiently specific, since the entity has indicated to other parties who are willing to accept certain responsibilities, and

(b) as a result of the above, the entity has created a valid expectation 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 possibly by the non occurrence of one or more uncertain future events that are not entirely under the control of the entity;

(b) a present obligation that arises from past events that are not recognized because:

> **(i) it is unlikely that the entity has to satisfy outflow of resources embodying economic benefits, 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 whose existence will be confirmed only by the occurrence, or possibly by the non occurrence of one or more uncertain future events that are not entirely under the control of the entity.

An onerous contract is any contract in which the unavoidable costs of meeting the obligations, exceed the expected economic benefits received under it.

A restructuring is a program of action, planned and controlled by management of the entity, whose effect is a significant change:

(a) the scope of activity undertaken by the entity;

(b) how to take their business management.

Provisions and other liabilities

11. The provisions can be distinguished from other liabilities such as trade payables and other accrued liabilities that are subject to estimation, by the existence of uncertainty regarding the timing or the amount of future expenditure required in settlement. In contrast to the provisions:

(a) trade payables are liabilities to pay for goods or services have been provided or received by the entity, and have also been invoiced or formally agreed with the supplier, and

(b) accruals are liabilities to pay for supplying or receiving goods or services that have not been paid, invoiced or formally agreed with the supplier, and include items that are due to employees (e.g. due to proportional shares of paid leave accrued to the balance sheet date). Although it is sometimes necessary to estimate the amount or maturity of accruals, the uncertainty associated with them is usually much lower than in the case of provisions. The accrued liabilities are presented, often by integrating the provision for trade creditors and other payables, whereas provisions are reported separately.

Relations between provisions and contingent liabilities

12. In a general sense, all provisions are contingent because there is uncertainty about the timing or the amount. However, in this Standard, the term "contingent" is used for assets and liabilities that have not been recognized in the financial statements because their existence will be confirmed only after the occurrence, or if the non-occurrence of one or more uncertain future events not wholly within the control of the entity. Moreover, the term 'contingent liability' is used to designate the persons who do not meet the criteria for recognition.

13. This Standard distinguishes between:

(a) provisions: they have already been recognized as liabilities (assuming that the amount has been reliably estimated) because they represent and present obligations is likely to meet the entity an outflow of resources embodying economic benefits and

(b) contingent liabilities which have not been recognized as liabilities because they are:

(i) possible obligations to the extent that has yet to be confirmed whether the entity has a present obligation that may involve an outflow of resources embodying economic benefits, or

(ii) present obligations that do not meet the recognition criteria of this standard (either because it is unlikely that for cancellation an outflow of resources embodying economic

benefits, either because it cannot be a sufficiently reliable estimate of the amount of the obligation).

Recognition

Provisions

14. **It must be recognized as a provision under the following conditions:**

(a) the entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow entity of resources embodying economic benefits to settle that obligation and

(c) can get a reliable estimate of the amount of the obligation.

Unless these conditions are met, the entity should not recognize a provision.

Present obligation

15. **In some rare cases it is unclear whether or not an obligation in the present moment. In such circumstances it is considered that an event happened in the past has given rise to a present obligation if, taking into account all available evidence, there is a greater likelihood that incurred the obligation at the balance sheet date that otherwise.**

16. In almost all cases will be clear if the incident, which occurred in the past, has occurred or not the birth of a present obligation. In rare cases, for example in a law suit, it may be disputed or not the occurrence of certain events or whether those events result there was an obligation in the present moment. In such circumstances, the entity shall determine the existence of a present obligation, taking into account all available evidence, among which may include, for example, expert opinion. The evidence considered includes also any additional information provided by events after the balance sheet date. From this evidence:

(a) the entity recognizes a provision (assuming that the conditions for recognition) where the probability of existence of a present obligation at the balance sheet date is greater than the probability of nonexistence, and

(b) at the balance sheet of the existence of a contingent liability, provided that the likelihood of a present obligation is less than the probability that does not exist, except that is remote the possibility of an outflow of resources embodying economic benefits (see paragraph 86).

Past event

17. The past event from which it derives the obligation is called an event that gives rise to the obligation. For an event of this nature it is necessary that the entity does not have, as a result thereof, more realistic alternative to settling the obligation created by the event. This will apply only if:

    (a) payment of the obligation can be enforced by law, or

    (b) in the case of a constructive obligation, where the event (which may be a performance by the entity itself) has created an expectation valid in other parties that it will discharge those responsibilities.

18. The financial statements comprise the financial situation of the entity at year-end on which reports and not its possible position in the future. Therefore, no provision is recognized for expenses that are necessarily incurred to operate in the future. The only liabilities recognized in the balance sheet of the entity are those that exist already in the balance sheet date.

19. It is recognized as provisions only those obligations arising out of past events and whose existence is independent of future operations of the entity (i.e., future management of the entity). Examples of such obligations are environmental penalties or costs of repairing environmental damage caused against the law, since both at one and the other case, and pay the corresponding commitments, flow to the entity outflow of resources embodying economic benefits, regardless of future action that it takes place. Similarly, the entity must recognize the costs of abandoning an oil extraction plant or a nuclear power, provided that it is obliged to rectify damage already caused by their operation. In contrast to this, and for reasons of commercial or legal requirements, an entity may intend or need to be disbursed for expenses to operate in a particular way in the future (for example, by fitting smoke filters in a given factory). Since the entity can avoid the future expenditure by its future actions, such as changing the way we carry out the manufacture, there is no present obligation to make such expenditures, and therefore no provision is recognized for them.

20. An obligation recognized as a liability involves in all cases, the existence of a third party with whom it has contracted, and which satisfy the amount owed. However, it is necessary to know the identity of the party to which he must pay, since the obligation can be, even with the general public. Since the obligation always involves a commitment to another party, any decision of the management or administrative organ of the body will not lead to a constructive obligation at the balance sheet date, unless such decision has been communicated before the that date to those affected, in a manner sufficiently specific to create a valid expectation in other parties that it will discharge those responsibilities.

21. An event that has not given rise to an obligation immediately may do so at a later date due to legal changes or actions of the entity (for example, a sufficiently specific public statement)

that give rise to obligations or commitments. For example, when one has caused environmental damage may be no obligation to face the consequences. However, the emergence of a new law may be the event of an obligation arising as well as what may be the entity that publicly accepts its responsibility to repair the damage, so that it appears an implicit obligation the consequences produced.

22. In the case of laws whose ends are still being discussed, the obligations for the company will only appear when it is virtually certain that the final wording will be equal to the consequences of the project known. For purposes of this Standard, such obligation is treated as if it were a legal obligation. Due to the different circumstances surrounding the discussion of a law, it may be impossible to pinpoint a single event that can make virtually certain to take the final wording of it. In many cases it is impossible to be certain of the drafting of a law until the moment it is approved.

Output likely of resources embodying economic benefits

23. To recognize a person not only must be present obligation but also the likelihood that an outflow of resources embodying economic benefits to settle that obligation. For purposes of this Standard *, the outflow of resources or other event is regarded as probable if there is greater possibility that mind that otherwise, i.e. that the probability that an event will occur is greater than the probability of not present in the future. Where it is likely that there is an obligation, the institution shall inform, by means of notes, about the contingent liability unless the possibility of an outflow of resources embodying economic benefits is considered remote (see paragraph 86)

24. Where there are large numbers or a number of similar obligations (e.g. product warranties or similar contracts), the likelihood that an outflow of resources, for cancellation is determined by considering the class of obligations as a whole. Although the possibility of an outflow of resources is small for a particular item or type in particular may well be probable that an outflow of resources to settle the class of obligations as a whole. If this is the case, is recognized provision (subject to meeting the other criteria for recognition).

Reliable estimate of the amount of the obligation

25. The use of estimates is an essential part of the preparation of financial statements and its existence does not harm in any way the reliability that they should have. This is especially true in the case of provisions, which are by their nature more uncertain than other items in the statement of financial position. Except in extremely rare cases, the entity will be able to identify a set of possible outcomes of the uncertain situation and may therefore make an estimate for the amount of the obligation that is sufficiently reliable for use in recognizing a provision.

26. In the extremely rare case that you cannot make any reliable estimate, it will be before a person cannot be recognized. The disclosure of such contingent liability is made by means

of the corresponding notes (see paragraph 86).

Contingent liabilities

27. **The entity must not proceed with the recognition of any contingent liability, meaning as defined in paragraph 10 above.**

28. It do not indicate whether the contingent liability on the balance sheet or reflect its appearance in the income statement, the company discloses, in the way required under paragraph 86, regarding its existence, except that the possibility of an outflow of resources embodying economic benefits is considered remote.

29. If the entity is responsible, jointly and severally, under a particular obligation, the debt is expected to cover the other persons responsible will be treated as a contingent liability. The entity, in this case, recognizes a provision for the part of the obligation for which it is probable that an outflow of resources embodying economic benefits, except in the extremely rare circumstance that you cannot make a reliable estimate of such amount.

30. Contingent liabilities may develop in a way not initially expected. Will therefore be assessed continually, in order to determine whether it has become probable the event of an outflow of resources embodying economic benefits. If it becomes probable, for an item previously dealt with as a contingent liability outflow of economic resources in the future, recognize the corresponding provision in the financial statements for the year in which change has occurred in the probability of occurrence (except in the extremely rare circumstance that you cannot make a reliable estimate of such amount).

Contingent assets

31. **The entity should recognize a contingent asset.**

32. Typically, contingent assets arise from unplanned or other unexpected events, of which arises the possibility of an inflow of economic benefits to the entity. An example is a claim that the entity is carrying out through a judicial process, whose outcome is uncertain.

33. The contingent assets are not recognized in the financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, the related asset is not contingent and therefore it is appropriate to recognize it.

34. In the likely event that the inflow of economic benefits to the company because of the existence of contingent assets, and reported them in the notes to the financial statements in the manner required by paragraph 89.

35. The contingent assets are to be evaluated on an ongoing basis, in order to ensure that their development is appropriately reflected in the financial statements. In the event that the inflow of economic benefits to the company becomes virtually certain, there will be recognition of income and assets in the financial statements for the year in which such change has taken place. If the inflow of economic benefits has become probable, an entity discloses the contingent asset (see paragraph 89).

Poll

Best estimate

36. **The amount recognized as a provision should be the best estimate at the balance sheet date, the expenditure required to settle the present obligation.**

37. The best estimate of the expenditure required to settle the present obligation is the amount assessed rationally, that the entity would pay to settle the obligation at the balance sheet date or to transfer to a third party on that date. It is often impossible or too expensive to settle or transfer an obligation at the balance sheet date. However, the estimated amount that an entity will need to make the payment or transfer the gives the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

38. The estimates for each of outcome and financial effect are determined by the opinion of management of the entity, supplemented by the experience of similar transactions and in some cases, reports of experts. The evidence considered includes also any additional information provided by events after the balance sheet date.

39. The uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the particular circumstances of each case. In the event that the provision being assessed refers to a large population of individual cases, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name of this statistical method is the 'expected value'. The provision will therefore be different depending on whether the probability of this loss is, for example, 60% or 90%. In the event that the range of possible outcomes is continuous and every point of it is equally likely that another will use the average value of the interval.

Example

The entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent until six months after purchase. If minor defects were detected in all products sold, repair costs of all of them amount to 1 million. In the case of major defects were detected in all products sold, repair costs incurred amount to 4 million. The experience of the company in the past, along with future expectations indicate that, for next year, no defects in 75% of the articles are minor defects

in 20% and the remaining 5% displayed defects important. In accordance with paragraph 24, the entity must assess the likely departure of resources for the warranty of all items. The expected value of the cost of repairs is:
(75% (zero)) + (20% (of) 1,000,000) + (5% (of) 4,000,000) = 400,000

40. When assessing a single obligation, the best estimate of the liability can come up of the individual outcome is more likely. However, in this case the entity considers other possible outcomes. In the event that other possible outcomes are either much higher or much cheaper than the most likely outcome, the best estimate will be for an amount higher or lower, respectively, than for it. For example, if an entity has to rectify a serious fault in a large-scale industrial plant, constructed for a client, and the cost of the repair to get the first try, which is the most likely outcome is 1,000, will provide a provision for a larger amount contemplate the possibility that additional efforts were necessary, provided that the probability of having to perform them being significant.

41. The provision is measured before tax, the tax consequences as well as changes that can undergo the value thereof, are addressed in IAS 12.

Risk and uncertainties

42. **To make the best estimate of the provision, should be taken into account the risks and uncertainties that inevitably surround many of the events and circumstances to the valuation of the same.**

43. In Risk describes the variation in the outcome. An adjustment for the existence of risk can increase the amount for which a liability is measured. Caution is needed, in making judgments under uncertainty, so that not overstated assets and revenues and liabilities are not understated or expenditure. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the estimated cost of a particularly adverse outcome are assessed prudently, then such an outcome is deliberately treated as more probable than it actually is. Care should be taken to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of the provision.

44. The information about the uncertainties related to the final amount of the expenditure is made in accordance with the provisions of paragraph 85 (b). 10 © IASCF

Current Value

45. **When is of importance to the financial effect produced by the discount, the amount of the provision should be the present value of expenditures expected to be required to settle the obligation.**

46. Due to the time value of money, provisions in respect of cash outflows close to the balance sheet date is more onerous for the company that referred to other outlets of the same amount in more distant dates. The amount of provisions, therefore, will be discounted when the effect is material.

47. **The type or discount rates should be considered before taxes and other relevant evaluations should reflect the time value of money that the market is doing in the balance sheet date and the risks specific to the liability. The rate or discount rates should not reflect risks that have already been adjusted to make estimates of future cash flows associated with the provision.**

Future events

48. **The future events that may affect the amount required to settle an obligation should be reflected in the evaluation of it, whenever there is objective evidence enough that they will occur.**

49. The expectations about future events may be particularly important in the valuation of provisions. For example, an entity may believe that the cost of cleaning up a site at the end of its useful life will be reduced by future changes in technology. The amount recognized as provision must reflect a reasonable expectation of technically qualified and objective observers, taking into account all the available expertise on technology that may be used at the time to clean up. This is appropriate to include, for example, cost reductions related to increased experience associated with the application of current technology or the expected cost of applying existing technology in larger or more complex operations that have been out previously. However, the entity does not anticipate the development of a completely new cleaning technology in making the estimates, unless it is supported by sufficient objective evidence.

50. The effect of possible new legislation is taken into account in evaluating existing obligations when sufficient objective evidence that the legislation will be the one adopted with virtually no change. The variety of circumstances that arise in practice makes it impossible to specify a single event that in all cases, produce sufficient objective evidence. Moreover, evidence is needed both in legislation will require, as it is virtually certain to be enacted and carried out according to normal procedures. In many cases sufficient objective evidence will not exist until that legislation is enacted.

Expected disposals of assets

51. **The expected profits for the disposal or abandonment of assets should not be taken into account when assessing the amount of the provision.**

52. The expected profits for the disposal or abandonment of assets are not taken into account when assessing the amount of the provision, even if the disposal or abandonment in question is closely linked to the event giving rise to the provision. By contrast, the entity shall recognize the expected gains from the alienation or abandonment of assets in the time specified in the Standard that refers to the type of asset.

Rebates

53. **In the event that the entity expects that part or all of the expenditure required to settle the provision will be reimbursed by another party, such reimbursement will be recognized when and only when, it is virtually certain if the entity cancels reception the obligation under the provision. Reimbursement in such cases should be treated as a separate asset. The amount recognized for the asset should not exceed the amount of the provision.**

54. **In the income statement, the expense relating to a provision may be presented as net of the amount recognized as a reimbursement.**

55. In certain situations, an entity may consider the fact that a third party shall bear all or part of the expenditure required to settle a provision (for example, through the existence of insurance contracts, clauses compensation or guarantees from suppliers). The other party may either reimburse amounts paid by the institution or pay such amounts directly.

56. In many cases, the entity liable for the full amount, so you have to settle the whole if the party will not pay for any reason. In this situation, the provision is recognized for the total amount, and is recognized a separate asset for the expected reimbursement when it is virtually certain to be received if the entity is facing liabilities reflected in the provision.

57. In some cases, the entity cannot be liable for payments if the third party fails to pay. In this case, the entity has no liability for such payment and therefore not included in the calculation of the provision.

58. As noted in paragraph 29, an obligation which the entity is responsible jointly and severally, will be a contingent liability by the party and to the extent that is expected to be settled by the other parties.

Changes in the value of supplies

59. **The provisions must be reviewed at each balance sheet date and adjusted, if necessary, to reflect the best estimate at that time. In the event that is no longer probable that an outflow of resources embodying economic benefits to settle the obligation in question, will proceed to liquidate or reverse the provision.**

60. Where the discount has been used to determine the amount of the provision, the carrying amount of the increases in each year to reflect the passage of time. This increase is recognized as a financial cost.

Application of provisions

61. Each provision should be used only for expenditures for which it was originally recognized.

62. Just apply the provision to cover disbursements made originally with the crew. The fact expenditures against a provision that was originally recognized for different purposes, the effect of disguising the impact of two different events.

Application of the rules of recognition and measurement

Future losses resulting from farm

63. **No provision should be recognized for future losses arising from the farms.**

64. The future losses arising from holdings not satisfy the definition of a liability in paragraph 10, nor the general criteria for the recognition of provisions given in paragraph 14.

65. The expectation of future losses arising from ordinary activities may be indicative of certain operating assets have suffered an impairment. The institution must be relevant to the audit of impairment, under IAS 36 Impairment of assets.

Onerous contracts

66. **If the entity has an onerous contract, the present obligation arising from it must be recognized and valued in the financial statements as provisions.**

67. Many contracts (for example, some routine purchase orders) may be withdrawn 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 onerous contracts, they are within the scope of this Standard, and recognized the obligations that might exist. The executory contracts that are not onerous fall outside the scope of this Standard.

68. In this Standard defines an onerous contract as one in which the unavoidable costs of meeting the obligations, exceed the expected economic benefits received under it. The inevitable costs of the contract reflect the least net cost to solve it, or what is equal, the lower of the cost of fulfilling it and the amount of compensation or penalties arising from your failure.

69. Before proceeding to endow a separate provision for an onerous contract, the entity shall recognize any impairment loss that corresponds to the assets dedicated to fulfilling the obligations under the contract (see IAS 36).

Restructuring

70. The following examples of events that may meet the definition of restructuring:

    (a) sale or termination of a line of activity;

    (b) the closure of a site of the company in a country or region or the relocation of activities to be exercised in a country or region to another;

    (c) changes in management structure, for example, eliminating a level or scale of management; and

(d) fundamental reorganizations that have a significant effect on the nature and focus of the activities of the entity.

71. has recognized a provision for restructuring costs, only when they meet the general recognition criteria for provisions set out in paragraph 14. In paragraphs 72 to 83 shall determine how to apply the general recognition criteria to the case of restructuring.

72. **arises for the entity a constructive obligation as a result of restructuring, only when:**

(a) has a detailed formal plan to restructure, in which identifying at least:

(i) the business or part of the 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 to be carried out and

(v) the dates on which the plan will be implemented and

(b) has raised a valid expectation among those affected, meaning that the restructuring will take place, either by starting to implement the plan or announcing its main features to them.

73. The evidence that the entity has begun to carry out the restructuring plan would be provided, for example, a plan for dismantling plant or selling the assets concerned and also by the public announcement of the main features of plan. The public announcement of the detailed plan to restructure constitutes a constructive obligation to restructure only if done in such a manner and in sufficient detail (i.e., revealing the main features of the plan) that is capable of producing valid expectations in other parties involved, that is, between customers, suppliers and employees (or their representatives) that the entity will actually carry out the restructuring.

74. For the plan is enough to give rise to a constructive obligation to the entity to communicate to those affected by it, it is necessary that its implementation is planned to start as soon as possible, and that the timing of actions make unlikely any significant changes on initially expected. If, on the contrary, it is expected that after a long period of time 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 in other parties affected, the fact that the entity is engaged in a restructuring, because the timeframe allows opportunities for the entity to change its plans.

75. If the decision of management or the board of the institution for a restructuring has been taken, before the balance sheet date, it will lead to the existence of a constructive obligation, unless the said entity before the balance sheet date, to:

(a) started to implement the restructuring plan, or

(b) announced the main features of the restructuring plan to those who would be affected by it, in a sufficiently concrete to produce the same, expectations valid in the sense that the entity will carry out restructuring.

If the entity starts to implement the restructuring plan, or announces its main features to those affected by it, after the balance sheet date, are required to disclose this fact, as required by IAS 10 Events after the date of balance, if the effects are significant and the lack of information might affect economic decisions undertaken by users from the financial statements.

76. A constructive obligation is not created solely by the decision taken by management of the company, however may result from other earlier events together with the decision. For example, negotiations with employee representatives to discuss the termination payments, or with purchasers for the sale of the facilities that are exploitative, they may have been concluded that to be effective only approval needed for the body management. Once this approval has been obtained and has been communicated to the parties, the entity has an obligation to restructure, as long as the conditions of paragraph 72.

77. In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those pertaining to management (e.g. employees) or necessary notification to such representatives before the board makes the decision. As long as the decision by such a board involves communication to these representatives, may give rise to a constructive obligation to restructure.

78. **No obligation arises for the entity resulting from the sale of their holdings until the entity is required to the sale, that is, until there is an irrevocable agreement of sale or compulsory.**

79. Even if the institution has taken the decision to sell a holding and has publicly announced his decision, not be committed to the sale until the purchaser has been identified and there is a strong commitment to him. Until that occurs as a firm commitment, an entity may change its mind and besides, you have to take another course of action if you cannot find a buyer on acceptable terms. When contemplating the sale of a holding, as part of restructuring, it must be checked first, the possible impairment of assets belonging to the same, subject to the requirements of IAS 36. In this case must take into account that, when selling only part of the restructuring, might appear an implicit obligation to other aspects of the restructuring before there was a binding sale agreement.

80. **The restructuring provision should 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 costs such as those of:

(a) retraining or relocating continuing staff within the entity;

(b) marketing, and

(c) investment in new systems and distribution networks.

These expenditures relate to the future management of the activity, and therefore are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized in the same manner as if they arose independently of the restructuring.

82. The identifiable losses resulting from the exploitation of activities affected by the restructuring are not included in the amount of the provision, unless they are related to an onerous contract, as defined in paragraph 10.

83. As required by paragraph 51, gains on asset sales are not taken into consideration when assessing the amount of the restructuring provision, even though these are considered as an integral part of the restructuring.

Disclosures

84. **For each type of provision, an entity must disclose:**

(a) the carrying amount at the beginning and end of the year;

(b) additional provisions made in the exercise, including increases to existing provisions;

(c) amounts used (i.e. incurred and charged against the provision) during the period;

(d) unused amounts that have been reversed during the exercise, and

(e) increased during exercise, in order to discount stocks because of time and the effect it could have any change in the discount rate.
There is no need to provide comparative information.

85. **The entity should disclose for each class of provision, information on the following:**

(a) a brief description of the nature of the obligation and the expected timing of the outflows of economic benefits produced by it;

(b) an indication of the uncertainties regarding the amount or timing of the outflows that produce the supply. Where necessary to provide adequate information, the entity should disclose the information on the major assumptions made concerning future events referred to in paragraph 48; and

(c) the amount of any reimbursement, on the amount of assets that have been recognized for that expected reimbursement.

86. **Unless the possibility of any outflow in settlement is remote, an entity should disclose for each type of contingent liability on the balance sheet date, a brief description of the nature of it and, if possible:**

(a) an estimate of its financial effect measured as set out in paragraphs 36 to 52;

(b) an indication of the uncertainties related to the amount or timing of the outflow and

(c) the possibility of any reimbursement.

87. In order to determine which provisions or contingent liabilities may be added in each of the types or classes, it is necessary to consider whether the nature of the items is sufficiently similar for a common information that includes them all, to comply with the requirements in paragraphs 85 (a) and (b) and 86 (a) and (b). This may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but may not be appropriate in a single class amounts relating to normal warranties and representations concerning court.

88. At birth, the same set of circumstances, a provision and a contingent liability, the entity makes the disclosures required by paragraphs 84 to 86, so that shows the relationship between one and another.

89. **In the likely event that the inflow of economic benefits, the entity must include in the notice a brief description of the nature of the contingent assets for existence at the balance sheet date and, where possible, an estimate of its financial effect, measured using the principles set out for provisions in paragraphs 36 to 52.**

90. It is very important that the information provided on contingent assets, avoid indications that mislead about the possibility of obtaining the revenues.

91. **In cases where the non-disclosure of information required by paragraphs 86 and 89 because you either cannot, this fact should be disclosed in the notes thereto.**

92. **In some cases extremely rare in practice, can be expected to disclose information concerning some of the limits required under paragraphs 84 to 89, serious harm to the entity's position in disputes with third parties concerning the situations to which provisions, contingent liabilities or assets of the same nature. In such cases need not be an entity to disclose this information but must describe the general nature of the dispute, together with the fact that the information withheld and the reasons that led to such a decision.**

Transitional provisions

93. **The entity should account for the effect of adopting this standard, either at the date of entry into force or before it, adjusting the opening balance of retained earnings in the period in which they decide their accounting application. Institutions are advised but not required, to adjust the opening balance of retained earnings for the fiscal year for the oldest report data, again restating all comparative information provided. In the case of not restate comparative information, this fact should be disclosed in the notes.**

94. [Deleted]

Effective Date

95. **This Standard becomes operative for annual financial statements covering periods beginning on or after 1 July 1999. Early application is advised. If an entity applies this Standard for annual periods beginning before 1 July 1999, disclose that fact.**

96. [Deleted]