IAS 37 Provisions, contingent liabilities and contingent assets.

Provisions are recognised in the Financial Statements, Contingent Liabilities and Assets are not.

The criteria for recognition of an asset/liability are defined in the Framework
Items should be recognised if:
PROBABLE: probable that future economic benefit will flow to/from the entity.
RELIABLE MEASUREMENT: costs and revenues can be measured reliably.

Provisions.

- A provision is a liability of uncertain timing or amount.
- Liabilities are defined in the Framework 'A liability is a **present obligation** of the enterprise arising from past events, settlement will result in an **outflow of economic benefits**.'
- The amount recognised should be a **reliable estimate**.
- A provision is recognised in the financial statements.
- Disclosure is required, the following information must be provided:
    - Opening and closing balance and movements during the year.
    - Description of nature of obligation and expected timing of outflow, include indication of level of uncertainty.

Contingent Liabilities

- A contingent liability is a present obligation of the enterprise arising from past events but is not recognised because, it is not probable that an outflow of economic benefits will be required or the amount recognised cannot be measured reliably.
- If obligation is less than 50% and will only be confirmed by occurrence of a future event not controlled by the enterprise.

Do not recognise in financial statements. Disclosure is required, the following information must be provided:

  - Description of nature of contingent liability
  - Estimate of financial effect
  - Indication of level of uncertainty.
  - Possibility of any reimbursement

Contingent Assets

- A contingent asset is a possible asset that arises from past events but will only be confirmed by occurrence of a future event not controlled by the enterprise.
- As with contingent liabilities do not recognise in financial statements, disclosure is required.

The aim of IAS 37 is to eliminate profit smoothing.