

CONTINGENCIES: ASPE 3290

Definitions

- A **contingency** is an existing condition or situation involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.
- **likely** = the chance of the occurrence of the **future event is high**
- **unlikely** = the chance of the occurrence of the future event is slight
- **not determinable** = the chance of the occurrence of the future event cannot be determined

Accounting Treatment

Contingent losses

- contingent losses are accrued in the financial statements when both are met:
 - The probability of loss is **likely**
 - The amount of the loss can be **reasonably estimated**
- Contingent losses **are disclosed** in the notes to the financial statements when
 - Probability of loss is **likely**, but amount **cannot be reasonably estimated**
 - Probability of loss is **likely**, and an **accrual has been made** but there is an **exposure to loss in excess of the amount accrued**
 - The probability of loss is not **determinable**
- When the probability of loss is **unlikely**, you **do not** have to **accrue or disclose**
- The disclosure should include:
 - The nature of the contingency; and
 - Estimate of the amount or a statement that an estimate cannot be made; and
 - Any exposure in excess of the amount accrued

Measuring of contingent loss

- Measure contingent loss at the **best estimate**
- When there is a range of possible estimates and when a particular amount in the range is a **better estimate** than any other, that amount is accrued
- When there is a range, but no single amount is a better estimate, use the **lowest amount in the range to measure the contingent loss**

Contingent gains

- Contingent gains are **not accrued** in the financial statements
- A contingent gain that is **likely** to happen is to be **disclosed**
- At a minimum disclose the following
 - The nature of the contingent gain; and
 - An estimate of the amount, or a statement that an estimate cannot be made

Comparison to IFRS

- This topic is covered under **IAS 37 - Provisions, Contingent Liabilities and Contingent Assets**
- under IFRS, the term **provision** is used; instead the term **contingent liability**
- under IFRS, the concept of **constructive obligation** applies
- under IFRS a provision is recognized when probability of loss is **probable** (rather than likely); threshold for ASPE is higher
- under IFRS, when there is a **range and no best estimate**, take midpoint
- under IFRS, you need to **review provisions @ end of every period**
- under IFRS, contingent assets are disclosed when **probable** to be realized (rather than likely)
- under IFRS, there is detailed guidance on **Restructuring**
- Under IFRS, **onerous contracts and reimbursements** are covered