# APPRECIATIONS REGARDING THE FINANCIAL IMPLICATIONS OF THE IAS/IFRS ADOPTION ON THE ELEMENTS OF THE PROVISIONS TYPE

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*The present paper contains appreciations regarding the contents and the effects of the IAS/IFRS adoption on the elements of the provisions type within the financial reporting carried out by the enterprises. Assimilated will be also the elements considered to have a contingent character: assets and liabilities (element of novelty for the Romanian accounting system).*

*Keywords: contingent assets, contingent liabilities, provisions, restructuring, financial position.*

According to the Conform IAS 37 dispositions– Provisions, contingent liabilities and assets, the provisions are defined as being uncertain from the point of view of the exigibility or value. A provision will be acknowledged in accounting when, and only when:

- an entity has a current liability generated by a passed event;
- a coming out of resources might affect the economic benefits necessary to honour the respective liability; and
- one can give a credible estimation of the liability value. The standard states that only in very rare cases it is not possible a credible estimation of this one.

In rare cases, for instance, in the situation of a process, it is likely not to be obvious if there is a current liability. In these situations, a passed event can generate a present obligation if, taking into consideration all the available proofs, there might be a current liability on the date of the balance sheet. An entity acknowledges a provision for a present liability if other criteria of acknowledgement are fulfilled. If it is more likely not to exist than to exist a present liability, the entity will report a contingent liability, excepting the situation in which one eliminates the possibility of a coming out of resources generating economic benefits.

One must not acknowledge the provisions for future losses from the operation activity. The predicting of such losses indicates the fact that some operation assets can de depreciated. In this case, the entity tests these assets for depreciation in conformity with IAS 36 – the Depreciation of assets.

Within the financial situations one will find at the end of some reporting periods its financial position, so one cannot acknowledge those provisions for the categories of costs which will be supported by the entity – only during the future exercises.

The dispositions of the present standard are specific to provisions in general and to those for restructuring in special: the selling or the ceasing of the activity of a part of a business, the closing up of the headquarters in a region or a country, the movement of an activity from a country or region into another one, modifications in the structure of the board, fundamental reorganizations with significant effects in the nature and the aim of the entity activities (one also includes here the provisions for the interrupted activities). Also within the framework of the standard one defines and states regarding the contingent elements (assets and liabilities).

The standard defines a contingent liability as being:

- a possible liability which appeared as a consequence of some passed events and whose existence will be confirmed only by the apparition or non-apparition of one or several uncertain future events, which cannot totally be under the control of entity; or
- a current liability which appeared as a consequence of some passed events, but which is not acknowledged because: it is not likely that some resources comings out will be necessary, which incorporate the economic benefits for the solving of this liability or the liability value cannot be evaluated credibly enough.

The standard defines the contingent asset as being that potential asset which appears as a consequence of some previous events and whose existence will be confirmed only through the apparition or non-apparition of one or several uncertain future events, which cannot totally be under the control of entity (a debt which constitutes the object of a process in which the entity is involved, whose result is uncertain). An implicit liability is the liability which results from the actions of an entity in the case in which:

- through the establishment of a previous practice, through the written policy of a firm or from a declaration sufficiently specific, the entity indicated to its partners that it assumes certain responsibilities;
- as a result, the entity induced the partners the idea that it will honour those responsibilities.

The provisions distinguish themselves from other debts, as the debts from commercial credits or accounting obligations, due to the fact of incertitude related to the exigibility or the value of the future expenses necessary to the sinking of the debt. Unlike these ones:

- the debts from the commercial credits constitute payment obligations of the goods or services which were received or sent to by the suppliers and which were invoiced or whose payment was officially convened with the suppliers;
- the accounting duties are payment obligations for goods and services which were received from or sent to by the suppliers, but which were not paid, invoiced or whose payment was officially convened with the suppliers, inclusively the employees' wages (the sums afferent to the paid leave). Although it is sometimes necessary an estimation of the value or exigibility of these debts, the incertitude element is in general more reduced than in the case of the provisions.

Another factor of differentiation appears at the moment of presentation of these elements: the duties are presented as part of the debts resulted from commercial credits or from other activities, and the provisions are reported separately.

In a large sense, all the provisions are contingent because they are uncertain from the point of view of the exigibility or value. Although, the „contingent" term is used for liabilities and assets which are not acknowledged because their existence will be confirmed only by the apparition or non-apparition of one or more future uncertain events, which are not in totality under the control of the entity control. Besides, the „contingent debt" term is used for the debts which do not fulfill the acknowledgement criteria.

One makes difference between:

- provisions – acknowledged as debts (if the estimations are certain) being current obligations and some resources may be necessary which to incorporate economic benefits for sinking the obligations;
- contingent debts - are not acknowledged as debts, being possible obligations, but for which one has to confirm if the entity has a current obligation which can generate a reduction of resources which incorporate economic benefits or current obligations which do not fulfill acknowledgement criteria (either it is not likely the reduction of the entity resources which incorporate economic benefits for the sinking of the obligation, or one cannot achieve a sufficient credible estimation of the obligation value).

In case one estimates that a part or all the expenses necessary to the sinking of a provision will be reimbursed by a third part, the reimbursement will be acknowledged only when it is sure to be received if the entity honours its obligation. The reimbursement will be considered as a separate asset, and the acknowledged value for reimbursement will not exceed the value of the provision.

In the profit and loss account, the cost related to a provision can be presented at its value diminished with the value acknowledge for reimbursement.

Sometimes, an entity can request to another party to pay a part or all the expenses necessary to the settling up of a provision (in a contract of insurance, the clause of damage or of the offered guarantee). The other party can either reimburse the value paid by the entity, or effectuate the payment directly.

In most of the situations, the entity remains responsible for all the sum, so that, in the case in which from a reason of another the third party does not effectuate the payment, the entity is the one which has to pay. In such situations, the entity will acknowledge a provision for the entire value of the debt, and a separate asset for the foreseen reimbursement is acknowledged when it is certain that the reimbursement will be received in the case in which the entity honours the debt.

A provision afferent to the restructuring will include only the direct costs generated by the restructuring, i.e. those which are simultaneously generated in a necessary way by the restructuring process and are not related to the continuous development of the entity activity. A provision for restructuring must not include cost as those related to: re-qualification or the movement of the permanent staff, marketing, investments in new systems and distribution networks. These expenses referring to the future administration of the activity do not represent debts of restructuring on the date of the balance sheet. Such expenses are acknowledged on the same basis if they appear independently from restructuring.

In the case of the existence of an onerous contract (the unavoidable costs involved by the sinking of the obligations assumed through a contract exceed the economic benefits estimated to be obtained from the respective contract), the current contractual obligation is acknowledged and evaluated as a provision (it is about the minimal cost between the fulfillment of the contract and any compensation or penalty generated by the non-fulfillment of the contract). There is the possibility that when canceling such contracts no penalty is paid, from where no obligation results, but the existence of some events is possible, which to transform such contracts in contracts with onerous character, from where the applicability of the IAS 37 dispositions results.

In general, the value of a provision will represent the actualized value of the expenses estimated to be necessary for the sinking of the obligation. Thus, the provisions afferent to some comings out of the resources that appear after the date of the balance sheet, are of a high onerous level, compared to those afferent to the resources comings out of the same value which appear much later. So actualization is done when the effect is significant.

In the case of the utilization of the accounting value of a provision will increase due to the passing of the time, increase acknowledged as a cost of the leverage.

There are future events which can affect the sums necessary to the sinking of an obligation and implicitly the value of the provision (with the proofs necessary to the apparition of these events). One has to keep in mind that at the foreseen giving up of the assets, the resulted earnings will not be taken into consideration (they will not affect the value of the provision).

The revision of the elements of the provisions type will be done at each reporting date, and afterwards one effectuates their adjusting for offering the best possible estimation. In the case in which it is not probable the coming out of some resources concomitant with the obtaining of some economic benefits, with the view to canceling an obligation, the provision is canceled.

Regarding the provisions classes each entity will present the following categories of information:

- the accounting value at the beginning and at the end of the period;
- the supplementary provisions appeared during the period, inclusively the increases afferent to those already existing;
- the values used during the period which lead to the diminution of the provisions;
- the values non-used and retaken during the period;
- the modifications during the period, due to the time factor and reutilization of the updating rate;
- a short description of the obligation nature and an estimation of the period during which one will record comings out of economic benefits;
- the degree of incertitude regarding the value or the moment of appearance of these comings out;
- eventual predicted reimbursements.

Any provision will be used only on the purpose for which one initially made the acknowledgment. The expenses initially acknowledged will be used for the subsequent canceling (or respectively the value found according to the evaluations). A subsequent canceling of these expenses for a provision which was used on any other purposes than those established on the constitution, is an event of a distinct nature.

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