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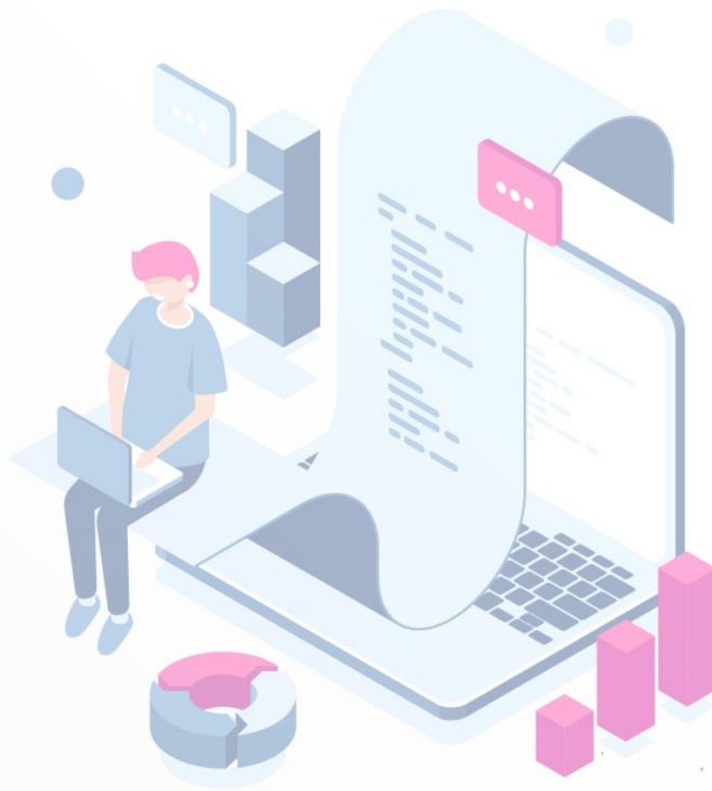

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FEATURES OF THE APPLICATION OF IFRS 37 "ESTIMATED LIABILITIES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS"

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Abstract. In this article we are talking about estimated reserves that may have an impact on information about financial results in the reporting period. The current practice prohibits the regulation of financial results taking into account estimated liabilities, as it does not allow creating reserves for non-existent liabilities. Thus, it is not allowed to distort the profit indicator in the financial statements in accordance with the requirements of IFRS (IAS) 37 "Estimated liabilities, Contingent liabilities and contingent assets".

Keywords: Estimated liabilities, contingent liabilities, contingent assets, financial activity report.

Introduction

The financial statements must be prepared on a certain reporting date. In conditions of uncertainty, the accountant relies on professional judgment in relation to specific transactions, as it is necessary to determine the impact of risks, uncertainties, future events on the amount of estimated liabilities presented in the financial statements. Therefore, information about estimated reserves may have an impact on information about financial results in the reporting period. The current practice prohibits the regulation of financial results taking into account estimated liabilities, as it does not allow creating reserves for non-existent liabilities. Thus, it is not allowed to distort the profit indicator in the financial statements in accordance with the requirements of IFRS (IAS) 37 "Estimated liabilities, Contingent liabilities and contingent assets".

The Standard establishes accounting and disclosure rules for all estimated liabilities, contingent liabilities and contingent assets, except for those whose formation is determined by other standards. For example, IFRS 3 "Consolidation of Companies" defines the rules for recognition in the financial statements of the buyer company of contingent liabilities assumed during the merger of companies.

The purpose of the IAS 37 standard is to provide recognition criteria and valuation bases applied to estimated liabilities, contingent liabilities and contingent assets, as well as requirements for disclosure of information in the notes to financial statements useful to users of financial statements. The Standard defines estimated liabilities as liabilities with an indefinite maturity or an indefinite amount. An estimated obligation should be recognized when: a) the company has an existing

obligation as a result of a past event; b) the occurrence of a need for an outflow of resources containing economic benefits in order to fulfill this obligation is probable; c) the amount of the obligation can be reliably estimated.

Recognition of estimated liabilities

An obligation is an existing obligation of the company arising from past events, as a result of which it is expected that resources containing economic benefits will be withdrawn from the company. The estimated obligation is considered as an obligation of indefinite magnitude or with an indefinite period of performance. Estimated liabilities differ from other liabilities, such as trade payables and accruals, because there is uncertainty about the time or amount of future costs required to settle the liability. Accruals are often reported as part of trade payables, and estimated liabilities are recorded separately. All estimated liabilities are contingent, since their amount or time are uncertain.

There are certain distinctions between estimated liabilities recognized as liabilities and contingent liabilities that are not recognized as liabilities. For example, with respect to obligations related to warranty repairs of sold equipment, there is a higher uncertainty compared to the obligation for accrued, but not yet paid remuneration to employees of the company. Therefore, warranty repair obligations should be considered as estimated obligations. Certain differences exist in the Russian practice of recognizing and reporting provisions for the company's warranty obligations related to reimbursement of repair, replacement or return of substandard goods.

International standards provide for the creation of reserves in full, since the binding event is the sale of goods and the transfer of significant risks and benefits to the buyer. Russian rules allow the recognition of a reserve only at the same time as the recognition of revenue, if there is a high probability of a refund to buyers of funds. In rare cases, it is unclear whether there is an existing obligation. For example, there is uncertainty in a court case, so it is impossible to recognize whether certain events have occurred or not and whether such events have led to the emergence of an existing obligation. In such cases, the company takes into account the opinion of experts, additional evidence.

A past event that leads to the emergence of an existing obligation is called a binding event. A binding event is an event that creates a legal or imputed obligation, as a result of which the company has no other possibility of settling this obligation. In order for the event to be binding, it is necessary that the company does not have a realistic alternative to transferring economic benefits. This happens only in cases where the fulfillment of the obligation is provided by law or in the case of a traditional obligation, when the event creates valid expectations of other parties that

the company will perform certain actions. Only those liabilities that exist at the reporting date are recognized in the balance sheet.

A legal obligation is an obligation arising as a result of a contract, legislation or other action of the law. Only liabilities arising from past events that exist independently of the company's future actions are recognized as estimated liabilities. Examples of such obligations may be fines or clean-up costs resulting from environmental pollution, which will lead to the disposal of resources containing economic benefits in order to settle the obligation, regardless of the company's future actions. Example A company is engaged in the production of electricity at a nuclear power plant, the construction costs of which amount to 450 million den. units. The useful life of the power plant is 15 years, after which the company must completely dismantle it.

The cost of dismantling and disposal of fuel, according to experts, will amount to 300 million den. units. The company must also cover all cleaning costs as a result of environmental pollution caused by water leaks from the cooling system in connection with the production of electricity. The probability of leakage every 12 months, according to the experience of such power plants, is estimated at 20%. The costs of eliminating the leak are estimated at approximately 30 million den. units. It is required to determine the basic principles of accounting for reserves and criteria for their recognition in the financial statements. According to the requirements of IFRS (IAS) 37 "Estimated liabilities, Contingent Liabilities and contingent assets", the company must have a recognized liability, the settlement of which will cause a decrease in economic benefits, for which a reserve can be created. The Company has recognized the costs of dismantling the power plant and disposal of waste in the amount of 300 million den. units, the reserve will be recognized in the balance sheet as a long-term liability in this amount.

In addition, part of the reserve in the amount of 20 million den. units will be reflected as expenses of the period in the profit and loss account evenly over the useful life of the asset in accordance with the adopted depreciation policy. The legality of creating a reserve to cover the costs of eliminating the consequences of environmental pollution can be justified by the fact that the company has a binding event. Since the probability of leakage arises in connection with the production of electricity, the company is obliged to recognize the obligation to restore resources. At the same time, if an obligation is unlikely (in the example under consideration, 20%), then a reserve may not be created, but the company may present such information in the notes to the financial statements as contingent liabilities.

In accordance with IFRS, the existence of a binding event may be recognized, leading to a lawsuit, as a result of which the company will be liable, and an outflow of resources containing economic benefits will be required. As a result, such a claim

will lead to a contingent liability, the assessment of which must be reliable. In accordance with the Russian rules, the occurrence of a contingent liability must be recognized when certain requirements are met, so most likely the reserve will be recognized at a later date. It should be borne in mind that an obligation always presupposes the existence of another party in relation to which this obligation exists. However, in certain cases, it is assumed that the obligation exists in relation to society as a whole. Therefore, the company can create a justified expectation that the company will fulfill its duties.

Changes in legislation or a public statement of the company's intention to voluntarily eliminate the damage caused to the environment by its activities may lead to an imputed obligation. Such an obligation is considered as a legal one. When preparing financial statements in accordance with IFRS, significant differences from the requirements of Russian national standards should be taken into account. In practice, the methodology of accounting for estimated reserves representing the adjustment of the book value of assets such as financial investments in securities and inventories presented in the financial statements is used. In addition, the reporting provides information on reserves created in connection with possible liabilities or contingent facts.

Reserves are recognized when certain conditions are met: there must be a high probability that economic benefits will decrease in the future, and this is due to a contract, or a legislative requirement, or the existing practice of the organization's functioning. It is also necessary to reliably estimate the amount of the obligation. At the same time, changes in interest rates are not taken into account, i.e. no discounting of the calculated amounts is required. Valuation of an estimated liability The standard requires that the amount recognized as an estimated liability represents the best estimate of the costs required to settle an existing liability at the reporting date. The cost estimate should be made in the amount that the company would have paid to fulfill the obligation on the reporting date or transferred to a third party on the reporting date. The assessment is made on the basis of the judgment of the company's management, based on the experience of such operations, or on the basis of a report submitted by independent experts. Additional evidence may be taken into account when making an informed judgment in connection with events after the reporting date. The best estimate of a commitment is the individual most likely outcome if a single commitment is evaluated. The company should consider other possible results, so the best estimate may be the largest or smallest amount. To achieve the best estimate of the value of the estimated liability, it is necessary to take into account the risks and uncertainties that affect the result. Appropriate adjustments may increase the amount of the estimated liability. The principle of conservatism presupposes the introduction of a certain degree of caution when making judgments about the assessment of estimated liabilities, i.e. overstatement of income and assets and

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underestimation of expenses or liabilities are not allowed. However, the existence of uncertainty cannot also justify the deliberate overstatement of obligations or the creation of excessive estimated obligations. For each class of estimated liabilities, the company must disclose in the financial statements information about their nature and the expected time of retirement of economic benefits arising from this obligation, as well as the risks and uncertainties associated with this obligation that affect the assessment of expected compensation. The discounted value valuation method is recommended for use when the influence of the time value of money is significant. The amount of the estimated obligation should represent the discounted value of the costs associated with the performance of the obligation. The discount rate should be a pre-tax rate that reflects the current market assessment of the time value of money and the impact of risks on the assessment of the liability. The carrying amount of the estimated liability is increased in each period to reflect the passage of time, if discounting is applied. In the income statement, such an increase is recognized as an interest expense. Estimated liabilities should be analyzed at each reporting date to reflect the current best estimate. The estimated obligation must be cancelled if the outflow of resources containing economic benefits for the performance of the obligation has already ceased to be probable. When determining the value of estimated liabilities, expected future events are of great importance. These events may affect the amount required to fulfill the obligation, therefore they should be reflected in the amount of the estimated obligation if there is objective evidence that they will occur. The adoption of new legislative acts may also have an impact on the assessment of an existing obligation when there is sufficient objective evidence that their adoption is practically beyond doubt. However, it is not possible to determine the existence of sufficient objective evidence in each specific case. When determining the amount of the estimated liability, it is not allowed to take into account the profit from the expected disposal of individual assets. The Company recognizes the profit from the expected disposal of assets within the time limits set by IFRS considering the relevant assets (for example, through an insurance contract, terms of compensation for damage or supplier guarantees). The expected profit from the disposal of assets should not affect the amount of estimated liabilities. The costs required to settle the obligation may be reimbursed by the other party. If such a recovery is likely, it should be recognized as a separate asset. In this case, the estimated liability is recognized for the full amount of the liability, and the value of such an asset should not exceed the amount of the estimated liability. The amount of such compensation may reduce the expense related to the estimated liability recognized in the income statement.

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