

Query No. 12

Subject: Provision for pay revision.¹

A. Facts of the Case

1. A company (hereinafter referred to as 'the company') is a 100% subsidiary of a public sector undertaking (PSU), ABC Ltd. (a Mini Ratna PSU) under the Ministry of Health and Family Welfare, Government of India (GoI) and incorporated and registered under the Companies Act on 03.04.2014. Being a service providing company, the real asset of the company is its talented and experienced manpower. The remuneration and allowances to the employees are supposed to be at par with that of the industry norms. The financial statements of the company have been prepared in accordance with the Indian Accounting Standards (Ind ASs), notified under the Companies (Indian Accounting Standards) Rules, 2015.

2. Department of Public Enterprises (DPE) vide its Office Memorandum (O.M.) dated 3rd August 2017, has communicated the acceptance of pay revision by the GOI, as recommended by the 3rd Pay Revision Committee (PRC) (a copy of the same has been supplied by the querist for the perusal of the Committee). Accordingly, pay revision of the Board level and below Board level executives and non-unionised supervisors of Central Public Sector Enterprises (CPSEs) shall be implemented w.e.f. 01.01.2017. Highlights of the DPE O.M. are summarised below:

- (i) The revised pay scales would be implemented subject to the condition that the additional financial impact in the year of implementing the revised pay package for Board level and below Board level executives and non-unionised supervisors should not be more than 20% of the average profit before tax (PBT) of the last three financial years preceding the year of implementation.
- (ii) There should be no change in the number and structure of pay scales and every executive has to be fitted into the corresponding new pay scale. In case of CPSEs which are yet to be categorised, the revised pay scales as applicable to the Schedule 'D' CPSEs should be applicable.
- (iii) In case the additional financial impact in the year of implementing the revised pay-package of a CPSE is within 20% of average PBT of last 3 years, a uniform full fitment benefit of 15% would be provided.
- (iv) If the additional financial impact in the year of implementing the revised pay-package is more than 20% of the average PBT of last 3 financial years (FYs), then the revised pay-package with recommended fitment benefit of 15% of basic pay (BP) + dearness allowance (DA) should not be implemented in full but only partly, as below:
 - a. More than 20% but upto 30% of average PBT of last 3 FYs, the fitment benefit shall be 10% of BP+DA.
 - b. More than 30% but upto 40% of average PBT of last 3 FYs, the fitment benefit shall be 5% of BP+DA.
 - c. No fitment of any other benefit of pay revision will be implemented in the CPSE where the additional financial impact of revised pay package is more than 40% of the average PBT of last 3 FYs.

¹ Opinion finalised by the Committee on 5.11.2019.

- (v) At the time of implementation of pay revision, if the additional financial impact after allowing full/part fitment exceeds 20% of average PBT of last 3 FYs then Performance Related Pay (PRP) pay out / allowances should be reduced so as to restrict the impact of pay revision within 20%.
- (vi) Board of Directors of the CPSE would consider the proposal of pay revision based on the affordability of the CPSE to pay and submit the same to Administrative Ministry for approval.
- (vii) The Administrative Ministry concerned will issue the Presidential Directive with the concurrence of its Financial Adviser in respect of each CPSE separately.
- (viii) After implementation of pay revision, the profitability of the CPSE shall be reviewed after every three years and
 - a. If there is improvement in the average PBT of the last 3 years, then full pay package /higher stage of pay package would be implemented while ensuring that total additional impact (sum total of previously implemented part pay package and proposed additional package) stays within 20% of the average of PBT of last 3 years.
 - b. If the profitability of a CPSE falls in such a way that the earlier pay revision now entails impact more than 20% of average PBT of last 3 years, then PRP/allowances will have to be reduced to bring down impact.

3. The company is following the pay-scales and other benefits as that of the parent company, ABC Ltd. for both executives and non-executives. Since the company is not a categorized CPSE and is 100% subsidiary of ABC Ltd. (Schedule B), the company is operating the pay scales from E0-E7, applicable to Schedule B CPSE, same as in the case of ABC Ltd. and the last revision of scale of pay was made effective from 01.01.2007.

4. For implementation of 3rd Pay revision, Board of Directors (BOD) of the company at its 16th Board meeting took decision to constitute committee to review the proposal for implementation of revision of scale of pay for Board level and Board level executives and non-unionised supervisors w.e.f. 01.01.2017 and submit the recommendation to the Board of Directors for further approval. In the same Board Meeting, provision for pay revision of Rs. 4.00 crore for the F.Y. 2017-18 was also approved. The Committee could not meet due to superannuation of two members.

5. In order to review the proposal of implementation of revision of scale of pay, at the 20th Board meeting, it is proposed that pay revision committee may be reconstituted with the following new members:

- (i) Director (Finance) - ABC Ltd.
- (ii) Chief Operating Officer/Chief Executive Officer (the company)
- (iii) Senior Vice-President (SVP) (HR)-ABC Ltd.

Further, Board of Directors at the 20th Board meeting approved the provision of pay revision of Rs. 3.87 crore for the F.Y. 2018-19 and cumulative provision as on 31.03.2019 is Rs. 7.87 crore.

6. For releasing the payment to the employees, the company has to go through the following steps:

- a. Committee constituted by BOD is yet to give its recommendation as per eligibility of the company for pay revision.
- b. Board approval for pay revision proposal on the recommendation of committee
- c. Holding company's approval on pay revision proposal, and
- d. Administrative Ministry's approval for pay revision as per the DPE's OM

However, although the actions as mentioned above are still pending and the company is not in a position to implement the pay revision immediately, the provision is made on the basis of fair estimation of the possible outflow due to pay revision in the future on year to year basis. Further, after completing all the procedures, there should not be big impact on a particular year. Also, the said provision has been booked on the basis of generally accepted accounting principles, i.e., 'Matching' concept which states that related expenditure for the particular period must be booked in the same period in which they are incurred, regardless of when the transfer of cash occurs in order to show the true profit for the period.

7. Since inception, the company has been in the growth path and is rapidly growing year after year. The provisions are made on the basis of following eligibility in F.Y. 2017-18 and F.Y. 2018-19.

Table-A shows eligibility criteria for the F.Y. 2017-18

| Financial Year | PBT (Rs. in Crore) |
|--|---------------------------|
| 2015-16 | 1.75 |
| 2016-17(without provision for PRP of Rs. 0.22 Crore) | 4.31 |
| 2017-18 (without provision of pay revision) | 15.26 |
| TOTAL PBT | 21.32 |
| Average PBT | 7.11 |
| 20% of average PBT | 1.42 |
| 30% of average PBT | 2.13 |
| 40% of average PBT | 2.84 |
| Total implication including 5% fitment benefit & 35% cafeteria perks | 2.52 |
| Total implication including 15% fitment benefit & 35% cafeteria perks | 4.00 |
| Provision for Pay Revision Created | 4.00 |
| Total Provision for Pay Revision as on 31.03.2018 | 4.00 |

Table-B shows eligibility criteria for the F.Y. 2018-19

| Financial Year | PBT (Rs. in Crore) |
|---|---------------------------|
| 2016-17(without provision for PRP of Rs. 0.22 Crore) | 4.31 |
| 2017-18 (without provision of pay revision of Rs. 4 Crore & PRP-Rs. 0.58 Crore) | 15.84 |
| 2018-19 (without provision of pay revision of Rs.3.87 Cr & PRP-Rs. 1.54 Crore) | 35.72 |
| TOTAL PBT | 55.86 |
| Average PBT | 18.62 |
| 20% of average PBT | 3.72 |
| 30% of average PBT | 5.59 |
| 40% of average PBT | 7.46 |

| | |
|--|-------------|
| Total implication including 5% fitment benefit & 35% cafeteria perks | 5.36 |
| Total implication including 15% fitment benefit & 35% cafeteria perks | 7.87 |
| Provision for Pay Revision Created | 3.87 |
| Total Provision for Pay Revision as on 31.03.2019 | 7.87 |

(Emphasis supplied by the querist.)

8. The eligibility of the company with 5% fitment benefit and 35% cafeteria perks was always available with the company. However, the company has provided full provision considering 15% fitment benefit and 35% cafeteria perks considering the facts mentioned below in paragraphs 9, 10 and 11.

9. At present, the company is having an excellent order booking in hand in all the business segments. Based on this, the average turnover of the company would be in excess of Rs. 200 crore in the next few financial years with a definite growth and the PBT may remain beyond Rs. 30 crore with an increasing trend. Based on the past history of performance and future prospective performance and as per present trends in the business of the company, in future, the liability to pay the pay revision will be the maximum to the extent of DPE guidelines allows.

10. Accordingly, the provision has been made based on the reliable estimate of the likely expenditure for the services rendered by the employees of the company in the relevant period. In the process it may be possible that the provision may surpass the limit of 20% of average profit of last 3 years' profit in a particular year and in some of the years, there might be additional amount available in the limit of 20% but overall impact on the profit will not surpass the limit at the time of implementation and pay out to the employees.

11. Provisions of Indian Accounting Standard (Ind AS) 37, 'Provisions, Contingent Liabilities and Contingent Assets' were also considered, while making the provision for pay revision which are as follows:

- a. An entity has a present obligation (legal or constructive) as result of a past event, i.e., the company has the present obligation to revise pay scale of the employees who have already rendered / are rendering the service to the company.
- b. It is essential that an outflow of resources will be required to settle the obligation.
- c. The provision made is a reliable estimate of the company which is calculated on the basis of services rendered by the employees of the company.
- d. Moreover, during the period of financial statement, it can be fairly estimated that the outflow of recourses will occur in future.
- e. The said provision has been booked on the basis of generally accepted accounting principles, i.e., 'Matching' concept which states that related expenditure for a particular period must be booked in the same period in which they are incurred, regardless of when the transfer of cash occurs in order to show the true profit for the period.
- f. Further as per paragraph 48 of Ind AS 37, future events that may affect the amount required to settle an obligation, shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur. As the company is a growing organisation and it is evident from the turnover and profitability trends and increase in business operations of the company, the liability of pay revision shall accrue to the extent of maximum in the near future.

12. The maximum possible outflow for the pay revision, as per DPE guidelines i.e. calculated based on the fitment benefit of 15% to the existing employees. Accordingly, the company has created total provision w.e.f. 01.01.2017 to 31.03.2019 (27 months) of Rs. 7.87 crore. The provision of Rs. 4.00 crore has already been made in the previous year and the balance provision of pay revision of Rs. 3.87 crore for the F.Y. 2018-19 has been provided in books of account in the F.Y. 2018-19.

13. Disclosure in this regard is also made in the explanatory notes. The above provision is approved by the Board of Directors and in this regard, committee is constituted for giving recommendation as per the eligibility of the company in accordance with the DPE guidelines. After obtaining approval of the Board and the concurrence of the parent company, the same shall be submitted to the concerned Ministry for approval.

14. *Treatment in Accounts and Disclosure:*

The company has created the provision of pay revision in the books of account in the F.Y. 2017-18 for Rs. 4.00 crore and in F.Y. 2018-19 for Rs. 3.87 crore. Hence, the total provision for pay revision was Rs. 7.87 crore. In this regard, an explanatory note was also made in the financial statements which is given as below:

“Department of Public Enterprises (DPE) vide O.M. No. W-02/0028/2017-DPE (WC)-GL-XIII/17 dated 3rd Aug, 2017 has communicated the acceptance of pay revision by GOI, as recommended by the 3rd Pay Revision Committee (PRC) for the pay revision of board level and below board level executives and non-unionised supervisors to be implemented w.e.f. 01.01.2017. As per the above guidelines maximum ceiling of fitment benefit is 15% of Basic + DA and the ceiling of the perks is 35% of the revised basic pay. Accordingly a provision of Rs. 400 lakh was made in F.Y. 2017-18 and the same was approved by the Board of Directors at its 16th Board meeting held on 30/05/2018. Further, an additional provision for pay revision of Rs. 387.84 lakh has also been made in F.Y. 2018-19 (Total provision from 01/01/2017 to 31/03/2019 Rs. 787.84 lakh) in order to follow the matching principle of accounting. As per the matching principle, the expenses should be recorded during the period in which they are incurred, regardless of when the transfer of cash occurs.

For the implementation of the same, Board of Directors has constituted a committee consisting of VP (HR)-ABC Ltd., CEO (of the company) and Director (F)-ABC Ltd. which is in the process of giving recommendation as per the eligibility of the company in accordance with the DPE guidelines. After obtaining approval of the Board and the concurrence of the Parent company, the same shall be submitted to the concerned Ministry for approval”.

B. Query

15. On the basis of the above, the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) is sought on following issues:

- (i) Whether the accounting treatment given by the company by making provision is appropriate in the given condition and will not lead to understatement/overstatement of profit.
- (ii) Whether the matter of provision disclosed in explanatory statement by the management is also appropriate for disclosure.

C. Points considered by the Committee

16. The Committee notes that the basic issue raised in the query relates to creation of provision for pay revision made in accordance with the DPE guidelines pending the recommendations of the committee constituted in this regard, approval of the BODs, approval of the parent company and the Presidential Directive from the concerned Ministry. The Committee has, therefore, considered only this issue and has not examined any other issue arising from the Facts of the Case such as, legal interpretation of Office Memorandum (OM) issued by the DPE (hereinafter referred to as DPE Guidelines) including the categorisation of CPSE into which the company falls, computation of profit before tax (PBT) of the last three financial years preceding the year of implementation as per the OM/DPE Guidelines, fitment benefit, measurement of the provision created etc. At the outset, the Committee wishes to point out that the opinion expressed hereinafter, is in the context of Indian Accounting Standards (Ind ASs) notified under the Companies (Indian Accounting Standards) Rules, 2015. The Committee presumes from the Facts of the Case that the DPE guidelines are mandatory for the company to be followed.

17. The Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 19, 'Employee Benefits', notified under the Companies (Indian Accounting Standards) Rules, 2015 and the Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards (Framework), issued by the ICAI:

Ind AS 19:

- “4 The employee benefits to which this Standard applies include those provided:
- (a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;
 - ...
 - (c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.
- 5 Employee benefits include:
- (a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:
 - (i) wages, salaries and social security contributions;
 - ...
- “11 **When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits *expected to be paid* in exchange for that service:**
- (a) **as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.**

- (b) as an expense, unless another Ind AS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, Ind AS 2, Inventories, and Ind AS 16, Property, Plant and Equipment)."**

(Emphasis supplied by the Committee.)

Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards:

- "49 (b) A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits."
- "60 An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities."
- "64 Some liabilities can be measured only by using a substantial degree of estimation. Some entities describe these liabilities as provisions. The definition of a liability in paragraph 49 follows a broader approach. Thus, when a provision involves a present obligation and satisfies the rest of the definition, it is a liability even if the amount has to be estimated. Examples include provisions for payments to be made under existing warranties and provisions to cover pension obligations."

From the above, the Committee notes that when an employee has rendered service during a period, the employee benefits which are *expected to be paid* in exchange for that service are required to be provided for as liability. Further, as per the requirements of the Framework, liability is a present obligation (which may be legally enforceable as a consequence of a binding contract or statutory requirement) arising from past events, the settlement of which is *expected to result in an outflow* of resources embodying economic benefits. Further, a provision should be recognised where liability can be measured only by using a substantial degree of estimation provided it meets the definition of liability.

18. The Committee further notes that Ind AS 19 does not provide detailed guidance as to when and in what circumstances, employee benefits should be considered to be expected to be paid and accordingly whether there is any need to provide for the same in the financial statements. Similarly, the Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards also does not give detailed guidance on present obligation and when can it be considered to exist. In this regard, the Committee notes that Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' provides detailed guidance on present obligation and the circumstances in which liability/provision should be recognised. Accordingly, although provisions relating to employee benefits have not been addressed in Ind AS 37, the Committee notes the following paragraphs of Ind AS 37 dealing with the recognition of a provision:

- "14 A provision shall be recognised when:**

- (a) **an entity has a present obligation (legal or constructive) as a result of a past event;**
- (b) **it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
- (c) **a reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognised.”

“16 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:

- (a) where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and
- (b) where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

- (a) where the settlement of the obligation can be enforced by law; or
- (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.”

“20 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.”

“23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation

exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).”

“**A contingent liability is:**

- (a) **a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or**
- (b) **a present obligation that arises from past events but is not recognised because:**
 - (i) **it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or**
 - (ii) **the amount of the obligation cannot be measured with sufficient reliability.”**

The Committee notes from the above that a provision is recognised when an entity has a present obligation (legal or constructive), for which it is probable that an outflow of resources will be required and a reliable estimate can be made for the same. An element of judgement is required to determine whether there exists an obligation and therefore whether a provision needs to be recognised or not. It is for the management of the entity to exercise that judgement and the auditor to assess in the specific facts and circumstances of the entity, considering all the evidences/factors available as on the reporting date.

19. In this regard, the Committee notes that Clause 3 of the DPE Guidelines states as follows:

“3. **Affordability:** The revised pay scales would be implemented subject to the condition that the additional financial impact in the year of implementing the revised pay-package for Board level and below Board level executives and non-unionised supervisors should not be more than 20% of the average Profit Before Tax (PBT) of the last three financial years preceding the year of implementation.”

Thus, it is the year of implementation in which the financial impact has to be considered before implementing the revised pay package. Further, Clause 18 of the DPE guidelines states as follows:

“18. **Issue of Presidential directive, effective Date of implementation and payment of allowances.** The revised pay scales will be effective from 01.01.2017 ... The Board of Directors of each CPSE would be required to consider the proposal of pay revision (based on their affordability) to pay, and submit the same to the Administrative Ministry for approval. The administrative Ministry concerned will issue Presidential Directive with the concurrence of its Financial Adviser in respect of each CPSE separately.”

Thus, considering that the DPE guidelines are to be mandatorily followed by the company, the new/revised pay scales are to be implemented w.e.f. 1.1.2017 for which average profits of last three financial years of the entity are to be considered. Further, apparently the board of directors also are required to consider the proposal of pay revision based on the financial affordability of the entity. The Ministry’s approval also appear to be based on the financial soundness and affordability of the specific entity. Thus, the main thrust of the DPE guidelines for revised pay structure is on the affordability of the company based on the average profits of the last three years.

Considering these requirements, the Committee is of the view that since as per the querist, the financial affordability criteria for F.Y. 2016-17 and 2017-18 on the basis of average profits is met, had the revised pay scales been implemented in the financial year 2016-17 or 2017-18

itself it might have given rise to present obligation arising from past events as per the requirements of Ind AS 37 provided other conditions/factors as discussed below are met. However, since the financial affordability criteria is to be seen in the year of implementation and the new pay structures are yet to be implemented in the extant case, while determining whether there exists a present obligation as per the requirements of Ind AS 37, the company should consider in its own facts and circumstances whether such criteria will be met in the expected year of implementation considering all the evidences available as on the reporting date and various factors such as, future profitability based on past trends and future prospects of the business carried on by the company, events occurring after the reporting date, expert's opinion in this regard, etc. Apart from legal obligation based on the fulfilment of criteria as per DPE guidelines, the company should also consider whether there exists any constructive obligation in this respect (for example, due to any past informal practice of the company, etc.). Further, while determining whether present obligation exists or not, the company should assess as to whether the steps yet to be followed by the company for releasing payment to the employees, viz., recommendation by the Committee constituted by BOD, Board approval, Holding company's approval and Administrative Ministry's approval are only procedural in nature if the financial affordability criteria is met and not substantive in nature so as to change/modify the nature/amount/extent of the obligation for pay revision at any of the abovementioned levels even though financial criteria will be met in the expected year of implementation of the revised pay structure.

Accordingly, on the basis of above exercise, if it is determined that a present obligation (legal or constructive) exists and other conditions as per paragraph 14 of Ind AS 37 are met, provision should be recognised. However, where it is determined that 'present obligation' does not exist or due to any other reason, provision cannot be recognised (for example, due to non-fulfilment of conditions as per requirements of Ind AS 37), then, the company should also consider whether there is any need for disclosure as a 'contingent liability' (unless the possibility of an outflow of resources embodying economic benefits is remote), as per the requirements of Ind AS 37.

20. As far as appropriateness of disclosure of explanatory notes with regard to provision made by the company in paragraph 14 above is concerned, the Committee notes that these provide the details of the current situation, the extent of the provision made, extent of the approvals received and the remaining steps to be followed. The Committee is of the view that the nature of disclosures would depend upon whether the situation requires creation of provision or not, as discussed above. In this regard, the Committee also notes the following paragraphs of Ind AS 37:

“84 For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;**
- (b) additional provisions made in the period, including increases to existing provisions;**
- (c) amounts used (ie incurred and charged against the provision) during the period;**
- (d) unused amounts reversed during the period; and**
- (e) the increase during the period in the discounted amount Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets arising from the passage of time and the effect of any change in the discount rate.**

Comparative information is not required.

- 85 An entity shall disclose the following for each class of provision:**
- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;**
 - (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and**
 - (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.**
- 86 Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:**
- (a) an estimate of its financial effect, measured under paragraphs 36–52;**
 - (b) an indication of the uncertainties relating to the amount or timing of any outflow; and**
 - (c) the possibility of any reimbursement.**

From the above, the Committee is of the view that the company should provide the above-mentioned details for the provision/contingent liability recognised/disclosed respectively in the financial statements.

D. Opinion

21. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 15 above:

- (a) As per the requirements of Ind AS 19, employee benefits which are expected to be paid in exchange for the employee services during a period are required to be provided for as liability. Further as per the requirements of Framework, liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits and a provision should be recognised where liability can be measured by using a substantial degree of estimation. However, in the absence of detailed guidance for application of these requirements in Ind AS 19 and the Framework, as discussed in paragraph 18 above, the requirements of Ind AS 37 in this regard should be applied. Accordingly, the company should determine whether there exists a present obligation and therefore whether a provision needs to be recognised or not in the specific facts and circumstances, considering all the evidences and factors available as on the reporting date, as discussed in paragraph 19 above. If on the basis of this exercise, it is determined that a present obligation (legal or constructive) exists and other conditions as per paragraph 14 of Ind AS 37 are met, provision should be recognised. However, where it is determined that ‘present obligation’ does not exist or due to any other reason, provision cannot be recognised, then, the company should also consider whether there is any need for disclosure as a ‘contingent liability’ (unless the possibility of an outflow of resources embodying economic benefits is remote), as per the requirements of Ind AS 37.
- (b) Refer to paragraph 20 above.