

ASPE

At a Glance

Section 3290 - Contingencies

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Effective Date
Fiscal years beginning on or after January 1, 2011

Scope	Contingency
<p>Does not apply to:</p> <ul style="list-style-type: none"> • Allowances for impaired loans and doubtful accounts (see Section 3856, <i>Financial Instruments</i>). • Non-discretionary vendor rebates. • Warranty provisions. 	<ul style="list-style-type: none"> • 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. • Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability. • Some examples of contingencies: pending or threatened litigation, threat of expropriation of assets, guarantees of the indebtedness of others and possible liabilities arising from discounted bills of exchange or promissory notes.

Measurement Uncertainty
<p>Range of probabilities</p> <ul style="list-style-type: none"> • Express the uncertainty relating to the occurrence or non-occurrence of the future event(s), which determines the outcome of a contingency. • Provide a basis for determining the appropriate accounting treatment: <ul style="list-style-type: none"> • <i>Likely</i> - the chance of the occurrence (or non-occurrence) of the future event(s) is high; • <i>Unlikely</i> - the chance of the occurrence (or non-occurrence) of the future event(s) is slight; and • <i>Not determinable</i> - the chance of the occurrence (or non-occurrence) of the future event(s) cannot be determined.

Accounting Treatment
<p>Contingent losses</p> <ul style="list-style-type: none"> • When <u>both</u> of the following conditions are met the amount of a contingent loss must be accrued in the financial statements by a charge to income: <ul style="list-style-type: none"> • It is <u>likely</u> a future event will confirm an asset has been impaired or a liability incurred at the date of the financial statements; and • A reasonable estimate of the amount of the loss can be made. • When the estimate of the amount of a contingent loss to be accrued is based on a range and a specific amount in the range appears to be a better estimate than any other, that amount is accrued. • However, if no amount in the range appears to be a better estimate than any other, then the minimum amount in the range is accrued. <p>Contingent gains</p> <ul style="list-style-type: none"> • Must not be accrued in the financial statements.

Disclosure

<p>↓</p> <p>Contingent Losses</p>	<p>↓</p> <p>Contingent Gains</p>
<ul style="list-style-type: none"> • Disclosure in the notes to the financial statements of the existence of a contingent loss at the date of the financial statements must occur when: <ul style="list-style-type: none"> • The occurrence of the confirming future event is <u>likely</u> but a reasonable estimate of the loss cannot be made; • The occurrence of the confirming future event is <u>likely</u> and an accrual has been made but exposure to loss in excess of the amount accrued exists; or • The occurrence of the confirming future event is <u>not determinable</u>. • Minimum disclosure in the notes must include: <ul style="list-style-type: none"> • The nature of the contingency; • The estimate of the amount of the contingent loss or a statement that such an estimate cannot be made; and • Any exposure to loss in excess of the amount accrued. 	<ul style="list-style-type: none"> • Disclosure in the notes to the financial statements of the existence of a contingent gain must occur when it is <u>likely</u> that a future event will confirm that an asset had been acquired or a liability reduced at the date of the financial statements. • Minimum disclosure in the notes must include: <ul style="list-style-type: none"> • The nature of the contingency; and • The estimate of the amount of the contingent gain or a statement that such an estimate cannot be made.

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