Asset Procedure - Contingent Assets and Liabilities Accounting

Section 1 - Background and Purpose

(1) This Procedure is concerned with understanding disclosure requirements of contingent assets and liabilities to ensure that the University is AIFRS compliant by adopting accounting standard AASB137 – Provisions, Contingent Liabilities and Contingent Assets.

Section 2 - Scope

(2) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(3) Refer to the Accounting (Financial) Policy.

Section 4 - Procedures

Part A - Basis for Identifying Contingent Assets and Liabilities

(4) Contingent assets and contingent liabilities are not recognised in the financial statements of the University, however disclosure of information regarding contingent assets and contingent liabilities is required by way of a note to the annual financial report.

(5) To properly account for liabilities it is imperative that the distinction between liabilities (trade payables and accruals) and provisions is well understood and accounted for. Further, that the difference between a liability (crystallised) and a contingent liability is also well understood and its subsequent accounting and disclosure treatment.

(6) A liability is a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the University's resources embodying economic benefits, e.g. trade payables and accruals.

(7) Accruals are liabilities to pay for goods and services that have been received or supplied but have not yet been paid, invoiced or formally agreed with the supplier. Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

(8) Provisions are liabilities which have an uncertain timing or amount. They are distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or the amount of the future expenditure required in settlement. The present obligation under an onerous contract is recognised as a provision.

(9) A provision will be recognised when:

a. An entity has a present obligation 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 obligation. Estimates are an essential part of the preparation of financial reports and do not undermine their reliability.

(10) Contingent liabilities are possible obligations that arise out of past events and whose existence will be confirmed only by the occurrence of or non-occurrence of one or more uncertain future events not wholly within the control of the University. These can also be present obligations that arise from past events but they are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. Where the University is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by the other parties is treated as a contingent liability.

(11) Contingent assets are possible assets that arise 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 University. Contingent assets are assessed continually and if they become certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements in the period that the change from probable to certain occurs.

Part B - Accounting and Disclosure Procedures

Identifying Provisions and Contingent Liabilities

(12) Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation; or (b) a possible obligation 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 University.

There is a present obligation that probably requires an outflow of resources.	There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.	There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.
A provision is recognised. Disclosures are required for the provision.	No provision is recognised. Disclosures are required for the contingent liability.	No provision is recognised. No disclosure is required.

Identifying Contingent Assets

(13) Where, as a result of past events, there is a possible asset 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 University.

The inflow of economic benefits is virtually certain.	The inflow of economic benefits is probable, but not virtually	The inflow is not probable.
The asset is not contingent.	No asset is recognised. Disclosures are required.	No asset is recognised. No disclosure is required.

Decision Tree

(14) Refer to the Contingent Assets and Liabilities Decision Tree Flowchart.

Contingent Liability Disclosure

(15) The University shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

a. an estimate of its financial effect;
b. an indication of the uncertainties relating to the amount or timing of any outflow; and
c. the possibility of any reimbursement.

Contingent Asset Disclosure

(16) Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent asset at the reporting date, and, where practicable, an estimate of the financial effect. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.

(17) Examples of contingent assets and liabilities

a. An example of a contingent liability would be an outstanding lawsuit. Where the University does not have enough certainty to place the settlement value on the balance sheet, so it can only talk about the potential liability in the notes. This disclosure improves the completeness of the University's financial statements.
b. Bank guarantees are contingent liabilities.
c. If the University was to be jointly and severally liable for an obligation, that part of the obligation to be met by other parties is treated as contingent liability. (The University recognises a provision for that part of the obligation for which an outflow of resources embodying economic benefit is probable).
d. An example of contingent assets, if the University was taking legal action against a third party for breach of contract for $2m and where lawyers are confident of winning the case and receiving compensation from the third party. The $2m would be reported as a contingent asset by way of a note in the University's financial report.

Grounds for Non-disclosure of Contingent Assets and Liabilities

(18) Where any of the information required above is not disclosed because it is not practicable to do so, that fact shall be stated.

(19) In extremely rare cases, if the disclosure of some or all of the information required can be expected to prejudice seriously the position of the University in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, the University need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

(20) Executory contracts are excluded from disclosure requirements unless they are deemed onerous. An onerous contract is one where the unavoidable costs under the obligations of the contract exceed the benefits expected to be received under it. Whereas an executory contract is one in which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

Part C - Operational Aspects

(21) Corporate Finance is responsible for collating and final presentation of information in the University's annual financial report.

(22) Finance Managers are to keep a manual register of contingent assets and liabilities throughout the year.

(23) Legal Services is to provide a register of potential legal actions that may eventuate into a contingent asset or a contingent liability at the end of the reporting year.

Section 5 - Definitions

(24) For the purpose of this Procedure:

a. A controlled entity: is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).
b. Control: is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
c. A parent is an entity that has one or more controlled entities.
d. The Group: means the University and its controlled entities.
e. The University: means La Trobe University.

Status and Details

Status	Current
Effective Date	29th November 2016
Review Date	30th September 2018
Approval Authority	Vice-Chancellor
Approval Date	27th November 2016
Expiry Date	Not Applicable
Responsible Policy Officer	Jodie Banfield Chief Financial Officer
Author	Joe Dimasi
Enquiries Contact	Finance