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There is no Present obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation. Therefore, according to IAS 37 and ASC 450, FuelSource Co. should not recognize a provision as f December 31, 2011 neither in reporting to its U. K. parent under IFRSs nor in reporting to its U. S. -based lender in accordance with U. S. GAAP. Question A Any of four scenarios of the cases is not changed by the removal of 'probable outflows' criteria 2, which requires a probable future outflow of economic benefits resulting from the liabilities.

In the first and the second scenarios, the entity should recognize a provision as of the balance sheet date in reporting to its U. K. parent, while not recognize in the third and the fourth scenarios. Question B In my opinion, often criteria 1 and criteria 2 serve the same purpose. They both serve to prevent recognizing a liability if it is not probable. Thus, the removal of criteria 2 would makes IAS 37 more consistent with ASC 450 of U. S. GAAP. With this revision, there would be more enhanced comparability between those two standards.

ASC 450-20-25-1 When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. As indicated in the definition of contingency, the term loss is used for convenience to include many charges against ncome that are commonly referred to as expenses and others that are commonly referred to as losses. The Contingencies Topic uses the terms probable, reasonably possible, and remote to identity three areas within that range.

ASC 450-20-25-2 An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met: (a) Information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial tatements. Date of the financial statements means the end of the most recent accounting period for which financial statements are being presented.

It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. (b) The amount of loss can be reasonably estimated. The purpose of those conditions is to require accrual of losses when they are reasonably estimable and relate to the current or a prior period. Paragraphs 450-20-55-1 through 55-17 and Examples 1-2 (see paragraphs 450-20-55-18 through 5-35) illustrate the application of the conditions. As discussed in paragraph 450-20-50-5, disclosure is preferable to accrual when a reasonable estimate of loss cannot be made.

Further, even losses that are reasonably estimable shall not be accrued if it is not probable that an asset has been impaired or a liability has been incurred at the date of an entity's financial statements because those losses relate to a future period rather than the current or a prior period. Attribution of a loss to events or activities of the current or prior periods is an element of asset impairment r liability incurrence. ASC 450-20-50-5 Disclosure is preferable to accrual when a reasonable estimate of loss cannot be made.

For example, disclosure shall be made of any loss contingency that meets the condition in paragraph 450-20-25-2(a) but that is not accrued because the amount of loss cannot be reasonably estimated (the condition in paragraph 450-20-25-2[b]). Disclosure also shall be made of some loss contingencies that do not meet the condition in paragraph 450-20-25-2(a)" namely, those contingencies for which there is a reasonable possibility that a loss may have been incurred even hough information may not indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.

IAS 37-14 A provision shall be recognized 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 ot the obligation. It t recognized. nese cond itions are not met, no provision shall IAS 37-17 A past event that leads toa present obligation is called an obligating vent. 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. IAS 37-23 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 enefits to settle that obligation.

For the purpose of this Standard, l 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. IAS 37-36 The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.