CHAPTER 13

NON-FINANCIAL AND CURRENT LIABILITIES

E 13-1

(a) Classifications on balance sheet prepared under ASPE:

1. **Current liability; financial liability.**
2. **Current asset.**
3. **Current liability or long-term liability depending on term of warranty; not a financial liability.**
4. **Current liability; financial liability. A company would have an obligation to pay cash to the bank for any overdraft and this would result from the contractual agreement with the bank.**
5. **Current liability; not a financial liability if this refers to income tax withholdings, CPP and EI. This is a financial liability if it refers to other withholdings of a contractual nature with employees (union dues, for example).**
6. **Current liability; financial liability.**
7. **Current or noncurrent liability depending upon the time involved; not a financial liability (if deposit will be returned then it would be a financial liability).**
8. **Current liability; not a financial liability.**
9. **Current liability; not a financial liability.**
10. **Current liability; not a financial liability.**
11. **Current liability; financial liability.**
12. **Note disclosure if assume not reasonably estimable and/or likelihood of confirming future event cannot be determined. If assume likely and reasonably estimable then current or noncurrent liability depending upon the time involved; not a financial liability. A personal injury suit that requires you to pay is a result of a court order, not a contract – either written or implied – between two parties.**
13. **Current liability; financial liability.**
14. **Current liability; financial liability.**

EXERCISE 13-1 (Continued)

15. Note disclosure; not a financial liability. Dividends in arrears have not been booked – so it cannot be a financial liability. It becomes a financial liability only when declared by the company. The contractual arrangement between a company and its preferred shareholders is that they are entitled to a dividend every year before the common get any distributions, but they must be declared to be a liability at all.

16. Separate presentation in either current or long-term liability section; financial liability.

17. Current liability; not a financial liability.

18. Current or noncurrent liability depending upon the time involved; not a financial liability.

19. Current liability; financial liability.

(b) Changes if the balance sheet was prepared under IFRS:

(12) Under existing IAS 37: Note disclosure unless the likelihood of needing future resources to settle the contingent liability is remote. Note disclosure also required if amount not reliably measurable (however, the standard indicates that it is only in very rare circumstances that this would be the case). Under proposed amendments to IAS 37: It must first be determined whether the obligation exists at the reporting date. Liabilities can arise only from unconditional (or non-contingent) obligations. Uncertainty about the amounts that might be payable in the future is taken into account in the measurement of the liability, not its existence. If a liability is recognized, it is measured, and it is the measurement that takes into account the uncertainties that exist.

E 13-3

(a)	**Cash**	**894,000**	
	Liability for Returnable Containers		**894,000**
	Liability for Returnable Containers	**705,400**	
	Cash		**705,400**
	Liability for Returnable Containers	**55,000**	
	Sales Revenue		**55,000**
	($170,000 – $115,000)		

(b)

Liability for Returnable Containers

		$650,000	**12/31/13 liability**
		894,000	**2014 deliveries**
2014 returns	**$705,400**		
2012 expired deposits	**55,000**	**(760,400)**	
		$783,600	**12/31/14 liability**

(c) The classification of this liability as current or long-term depends upon the length of the company's operating cycle. If the company's operating cycle is one year or less, then the portion of the liability that is expected to be settled within one year is classified as current. The remaining deposits would be classified as long-term. If the company's operating cycle is between one year and two years, the portion of the liability that is expected to be settled within one operating cycle is classified as current. If the company's operating cycle is two years or more, the entire liability ($783,600) is classified as current.

E 13-7

(a)

Hornsby Corporation
Partial Balance Sheet
December 31, 2014

Current liabilities:	
Notes payable (Note 1)	**$250,000**
Long-term debt:	
Notes payable refinanced in February 2015 (Note 1)	**950,000**

Note 1: Short-term debt refinanced

As of December 31, 2014, the company had notes payable totalling $1,200,000 due on February 2, 2015. These notes were refinanced on their due date to the extent of $950,000 received from the issuance of common shares on January 21, 2015. The balance of $250,000 was liquidated using current assets.

OR

Current liabilities:	
Notes payable (Note 1)	**$250,000**
Long-term debt:	
Short-term debt expected to be refinanced (Note 1)	**950,000**

(Same Note as above.)

E 13-7 (Continued)

(a) Under IFRS, since the debt is due within 12 months from the reporting date, the whole amount ($1.2 million) is classified as a current liability. This classification holds even if a long-term refinancing has been completed before the financial statements are released. The only exception accepted for continuing long-term classification is if, at the balance sheet date, the entity expects to refinance it or roll it over under an existing agreement for at least 12 months and the decision is solely at its discretion. The international standard has a stringent requirement that the agreement must be firm at the balance sheet date.

(b) The current ratio is calculated as current assets/current liabilities. If Hornsby follows ASPE, current liabilities would include $250,000 related to the short-term notes payable. If Hornsby follows IFRS, current liabilities would include $1.2 million related to the short-term notes payable. Therefore, the current ratio would appear higher if Hornsby follows ASPE. A creditor would want to assess the company's liquidity and solvency, and should be aware that classification of the short-term notes payable on the balance sheet has a significant impact on key ratios including the current ratio. The creditor should refer to all information in the financial statements, including notes to the financial statements, to determine the financial position of the company, especially when comparing the company's performance to that of another company with financial statements prepared under a different standard.

E 13-14

(a)	**January 1, 2014**		
Drilling Platform		**5,460,000**	
Cash			**5,460,000**
Drilling Platform		**419,063**	
Asset Retirement Obligation			**419,063**
(PV of $950,000 using i=8% and n=6) X 70%			
$950,000 X .63017 X 70%			
(b)	**December 31, 2014**		
Depreciation Expense		**979,844**	
Accumulated Depreciation – Drilling Platform			**979,844**
($5,460,000 + $419,063) ÷ 6			
Interest Expense		**33,525**	
Asset Retirement Obligation			**33,525**
$419,063 X 8%			
Inventory		**32,328**	
Asset Retirement Obligation			**32,328**
(c)	**December 31, 2015**		
Depreciation Expense		**979,844**	
Accumulated Depreciation – Drilling Platform			**979,844**
($5,460,000 + $419,063) ÷ 6			
Interest Expense		**38,793**	
Asset Retirement Obligation			**38,793**
($419,063 + $33,525 + $32,328) X 8%			
Inventory		**34,914**	
Asset Retirement Obligation			**34,914**

E 13-14 (Continued)

(d)	**December 31, 2019**		
Asset Retirement Obligation		**950,000**	
Gain on Settlement of Asset Retirement Obligation			**28,000**
Cash			**922,000**
(e)	**January 1, 2014**		
Drilling Platform		**5,460,000**	
Cash			**5,460,000**
Drilling Platform		**419,063**	
Asset Retirement Obligation			**419,063**
(PV of $950,000 using i=8% and n=6) X 70%			
$950,000 X .63017 X 70%			
	December 31, 2014		
Depreciation Expense		**979,844**	
Accumulated Depreciation – Drilling Platform			**979,844**
($5,460,000 + $419,063) ÷ 6			
Accretion Expense		**33,525**	
Asset Retirement Obligation			**33,525**
$419,063 X 8%			
Drilling Platform		**32,328**	
Asset Retirement Obligation			**32,328**
	December 31, 2015		
Depreciation Expense		**986,310**	
Accumulated Depreciation – Drilling Platform			**986,310**
($5,460,000 + $419,063) ÷ 6 + $32,328 ÷ 5			
Accretion Expense		**38,793**	
Asset Retirement Obligation			**38,793**
($419,063 + $33,525 + $32,328) X 8%			

E 13-14 (Continued)

Drilling Platform	**34,914**	
Asset Retirement Obligation		**34,914**

December 31, 2019

Asset Retirement Obligation	**950,000**	
Gain on Settlement of Asset Retirement Obligation		**28,000**
Cash		**922,000**

E 13-15

(a)

Present value of the asset retirement obligation
= $75,000 X .55839 = $41,879

Using a financial calculator:

PV	?	Yields $ 41,879.61
I	6%	
N	10	
PMT	0	
FV	$ (75,000)	
Type	0	

	July 2, 2014	
Oil Tanker Depot	600,000	
Cash		600,000
Oil Tanker Depot	41,879	
Asset Retirement Obligation		41,879
(b)	**December 31, 2014**	
Depreciation Expense	32,094	
Accumulated Depreciation –		
Oil Tanker Depot		32,094
($600,000 + $41,879) ÷ 10 X 6/12		
Accretion Expense	1,256	
Asset Retirement Obligation		1,256
($41,879 X 6% X 6/12)		
(c)	**June 30, 2024**	
Asset Retirement Obligation	75,000	
Loss on Settlement of Asset Retirement Obligation	5,000	
Cash		80,000

EXERCISE 13-15 (Continued)

(d)

Year	Beg. Carrying Amount	Accretion Expense (6%)	Ending Carrying Amount
June 30, 2015	41,879.00	2,512.74	44,391.74
2016	44,391.74	2,663.50	47,055.24
2017	47,055.24	2,823.31	49,878.55
2018	49,878.55	2,992.71	52,871.26
2019	52,871.26	3,172.28	56,043.55
2020	56,043.54	3,362.61	59,406.15
2021	59,406.15	3,564.37	62,970.52
2022	62,970.52	3,778.23	66,748.75
2023	66,748.75	4,004.93	70,753.68
2024	70,753.68	4,245.22	74,998.90

(e) **Balance Sheet:**

Property, Plant, and Equipment:		
Oil Tanker Depot	$641,879	
Less: Accumulated Depreciation	32,094	609,785
Long-term Liabilities:		
Asset Retirement Obligation ($41,879 + $1,256)		43,135

Income Statement:

Operating Expenses	
Depreciation Expense	32,094
Accretion Expense	1,256

(f) The accretion expense is a non-cash expense. It would be omitted from cash from operations in the statement of cash flows prepared using the direct method. It would be added back to net income in the statement of cash flows prepared using the indirect method.

EXERCISE 13-15 (Continued)

(g) If the company reports under IFRS, the main differences in accounting for the asset retirement costs and obligation are as follows:

1. **If there are any constructive obligations related to retiring the oil tanker depot, the related costs would be included in the asset retirement obligation (ARO), in addition to the legal obligations recognized in part (a). Whereas under ASPE, only the costs associated with legal obligations are included in the ARO.**

2. **The costs included in the capital asset would only be those retirement obligations related to the acquisition of the asset, not those retirement obligations related to the subsequent production of goods or services. Under IFRS, retirement costs related to the subsequent production of goods or services are included as inventory or product costs as the depot is used and the retirement costs increase due to production. Whereas under ASPE, the costs included in the capital asset are the retirement obligations resulting from both the acquisition of the asset and its subsequent use in producing inventory.**

3. **The interest adjustment to the liability account recorded in part (b) would be recognized as a borrowing cost in the interest expense account. Whereas under ASPE, the interest adjustment is recognized as an operating expense in the accretion expense account.**

As an example, assuming that Crude Oil follows IFRS and that the ARO of $75,000 at the end of the depot's useful life relates 50% to acquisition of the depot and 50% to the subsequent production:

EXERCISE 13-15 (Continued)

- **The July 2, 2014 entry to acquire the oil tanker depot would be the same as under ASPE.**
- **Instead of capitalizing the full $41,879 in the Oil Tanker Depot account, only ½ X $41,879 or $20,940 would be capitalized at July 2, 2014.**
- **The depreciation expense for the six months ended December 31, 2014 would be ($600,000 + $20,940) ÷ 10 X 6/12 = $31,047**
- **Interest expense (which would be accretion expense under ASPE as discussed above) for the 6 months ended December 31, 2014 would be lower than under ASPE. It would be $20,940 X 6% X 6/12 = $628.**
- **An entry would have to be made to recognize the increased ARO due to the production activities for the 6 months ended December 31, 2014, with the costs charged to Inventory. This would be measured at the present value of the incremental costs caused by this production. If $37,500 of the remediation obligation (ARO) was caused by the acquisition of the asset, then the other $37,500 of the ARO, or $1,875 every six months, would be caused by production. At the end of December 2014, $1,078 is the present value of the incremental cost caused by production (PV $1,875 using i=6% and n=9.5 periods which gives a PV factor of .57490). On June 30, 2015, an additional $1,110 would be recognized as production costs and an increase in the ARO (PV $1,875 using i=6% and n=9 periods which gives a PV factor of .59190). At June 30, 2015, additional interest expense would be recognized as well because $1,078 has been included in the ARO since December 31, 2014. However, only $1,078 is charged to Inventory and credited to the Asset Retirement Obligation at December 31, 2014.**
- **At June 30, 2024, the ARO will have accumulated to $75,000, the same as under ASPE. Therefore the same entry would be made to recognize the $80,000 expenditure for remediation and the $5,000 loss.**

EXERCISE 13-15 (Continued)

Note to instructors: This may be more detail than you would like to get into with your students, but is provided here as one way to calculate reasonable numbers for the entries. The following table sets out a "proof" that the ARO related to production activity and interest for the first year's production will accumulate to 1/10 of the estimated retirement costs at the end of 10 years or $3,750.

For each period, the ARO relating to the current production is recorded at its present value at the end of the period of production, added to the same liability account for the ARO recognized for the asset acquisition, and then accreted until the obligation is eventually retired.

There is no amount in the ARO account related to inventory production until December 31, 2014, so no accretion is needed in that first period.

	Present value of additional costs resulting from production in first year	Accretion at 6% per year	Balance of ARO related to production activity for first year
Jul.1/14	0	0	0
Dec.31/14	1,078	0	1,078
Jul.1/15	1,110	32	2,220
Jul.1/16	0	133	2,353
Jul.1/17	0	141	2,494
Jul.1/18	0	150	2,644
Jul.1/19	0	159	2,803
Jul.1/20	0	168	2,971
Jul.1/21	0	178	3,149
Jul.1/22	0	189	3,338
Jul.1/23	0	200	3,538
Jul.1/24	0	212	3,750

E 13-16

(a)	**Cash (150 X $4,000)**	**600,000**	
	Sales		**600,000**
	Warranty Expense	**17,000**	
	Cash, Inventory, Accrued Payroll		**17,000**
	Warranty Expense ($45,000* – $17,000)	**28,000**	
	Estimated Liability Under Warranties		**28,000**
	***(150 X $300)**		
(b)	**Cash**	**600,000**	
	Sales		**600,000**
	Warranty Expense	**17,000**	
	Cash, Inventory, Accrued Payroll		**17,000**

(c) The cash method of accounting for warranty costs is acceptable when the costs are not material or when the warranty period is relatively short. It may also be acceptable when the amount of the liability cannot be reasonably estimated or if future costs are not likely to be incurred.

E 13-18

(a)	Accounts Receivable	3,000,000	
	Sales Revenue		3,000,000
	(500 X $6,000)		
	Warranty Expense	30,000	
	Cash, Inventory, etc.		30,000
	Warranty Expense	90,000	
	Warranty Liability		90,000
	($120,000 – $30,000)		
(b)	Accounts Receivable	3,000,000	
	Sales Revenue		2,840,000
	Unearned Warranty Revenue		160,000
	Warranty Expense	30,000	
	Cash, Inventory, etc.		30,000
	Unearned Warranty Revenue	40,000	
	Warranty Revenue		40,000
	[$160,000 X ($30,000/$120,000)]		

E 13-18 (Continued)

(c)

Sales Revenue	**$3,000,000**	**$2,840,000**
Warranty Revenue	**0**	**40,000**
Warranty Expense	**(120,000)**	**(30,000)**
Net Income	**$2,880,000**	**$2,850,000**

Treating the warranty as an integral part of the sale under the "expense-warranty" approach will trigger a larger expense. This is because the full cost of servicing the product over the course of the warranty period must be estimated and disclosed in the period of sale. The warranty expense under a "sales-warranty" approach records only expenses incurred in the current period.

The presentation of sales revenue will also differ under the two approaches. Under the "expense-warranty" approach, the sales proceeds from selling the product generate only one revenue source. Under the "sales-warranty" approach, the sale of the product generates two different revenue streams (the sale of the product and the sale of the warranty contract as a service revenue) as well as two gross profit sources (sales revenue less cost of goods sold and warranty revenue net of warranty expense).

Since the same selling price is used under both approaches, we can see that the "sales-warranty" approach generates a lower income in the current year because a portion of the profit is deferred to future periods until it is earned as the service is provided.

(d) If the warranty costs are considered to be immaterial, the cash basis method could be used and warranty costs expensed recognized in the year they are incurred. However, if the warranty costs are considered material to the company's financial statements, the company may have to defer recognizing the revenue from the sale of the product until all costs can be measured and matched against the related revenues.

E 13-19

(a) Expense Approach:

Cash / Accounts Receivable	**3,000,000**	
Sales Revenue		**3,000,000**
(1,000 X $3,000)		
Warranty Expense	**105,000**	
Cash, Inventory, etc.		**105,000**
Warranty Expense	**95,000**	
Warranty Liability		**95,000**
[(1,000 X $200) – $105,000]		

December 31, 2014 financial statement amounts reported:

Balance Sheet	
Warranty liability	**$95,000**
Income Statement	
Sales revenue	**$3,000,000**
Warranty expense	**200,000**

E 13-19 (Continued)

Revenue Approach:

Cash / Accounts Receivable	**3,000,000**	
Sales Revenue.....		**2,650,000**
Unearned Warranty Revenue		**350,000**
Warranty Expense.....	**105,000**	
Cash, Inventory, etc.		**105,000**
Unearned Warranty Revenue	**183,750**	
Warranty Revenue		**183,750**
[$350,000 X ($105,000/$200,000)]		

December 31, 2014 financial statement amounts reported:

Balance Sheet	
Unearned warranty revenue	**$166,250**
Income Statement	
Sales revenue	**$2,650,000**
Warranty revenue	**183,750**
Warranty expense	**105,000**

E 13-19 (Continued)

(b) When the expense approach is used to account for warranty costs, sales revenue will be higher because it is all considered to be earned upon the sale of the product. As well, the expense on the income statement will represent the total estimated costs of servicing the warranties (i.e., the actual costs of servicing the warranty in the period, plus a year end adjustment for expected future costs.) Therefore the total gross profit on the warranty work is recognized in the period the equipment is sold.

When the revenue approach is used, sales revenue will be lower because the total selling price is allocated between the sale of the product and the sale of the warranty service. There will be an unearned warranty revenue liability account for the portion of the warranty that has not been taken into revenue at year end. Warranty expense will be equal to the actual costs of servicing the warranty during the year. In summary, the profit on the warranty work is recognized later under the revenue approach—in the period in which the warranty work is performed.

In this situation, it makes more sense to choose the revenue approach. In this way, income is reported as it is earned, and is a better measure of performance. In addition, as the company is considering going public in a few years, and the bifurcation of revenues to multiple deliverables is required by IFRS, the revenue approach would be consistent with what will be required after we go public. It would make sense to adopt this accounting policy now so that a retrospective change is not required later.

E 13-22

(a) Balance Sheet:

Current Liabilities:	
Premium Liability*	**$600**
Income Statement:	
Premium Expense	**$1,500**

* **Total estimated redemptions of stickers, at cost**

(25,000 X 10% ÷ 10 X $10) X 60%	**$1,500**
Stickers redeemed in current year (25,000 x 6% ÷ 10 x $10) X 60%	**900**
Estimated future redemptions, at cost	**$ 600**

(b)

Premium Expense	**900**	
Inventory.....		**900**
(cost of free product given in exchange when stickers are redeemed)		
Premium Expense	**600**	
Premium Liability		**600**
(liability for unredeemed stickers)		

E 13-24

1.The *CICA Handbook for Private Enterprises section 3290* requires that, when some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount be accrued. When no amount within the range is a better estimate than any other amount, the dollar amount at the low end of the range is accrued and the dollar amount of the high end of the range is disclosed. Since the information indicates that it is likely that a liability has been incurred at December 31, 2014, and a range of possible amounts can be reasonably determined, the criteria for recording a liability are met. In this case, therefore, Sugarpost Inc. would report a liability of $900,000 at December 31, 2014.

2. Su Li Corp. would not be required to make any entry. The wage increase is for the coming two years and does not relate to the current or prior years.

3.(a) The loss should be accrued since both criteria (it is likely that a loss is incurred and the amount of the loss can be reasonably determined) for recording the contingency are met. Given that the loss is covered by insurance, except for the $500,000 deductible, only the $500,000 should be accrued.

(b) Under IFRS requirements, the recognition criterion used to determine the chance of occurrence of a confirming future event is "probable," which is interpreted to mean "more likely than not." This is a somewhat lower hurdle than the "likely" required under ASPE. If the amount cannot be measured reliably, no liability is recognized under IFRS either; however, the standard indicates that it is only in very rare circumstances that this would be the case. If recognized, IAS 37 requires the best estimate and an "expected value" method to be used to measure the liability. As in part (a) above, this would be the $500,000 deductible.

E 13-24 (Continued)

4. **This is a gain contingency because the amount to be received will be in excess of the carrying amount of the plant. Under ASPE, gain contingencies are not recorded and are disclosed in the notes only when the probabilities are high that a gain contingency will become reality.**

P 13-4
(a)

Cost of storage tanks	$110,000
Asset retirement cost ($28,000 X .55839) [PV of $28,000 (n=10, i=6%)]	15,635
Balance in asset account, Feb. 28, 2014	$125,635
Depreciation for 2014 ($125,635 ÷ 10 X 10/12):	$10,470
Presentation on Dec. 31, 2014 balance sheet:	
Asset cost	$125,635
Less: Accumulated depreciation	(10,470)
	$115,165

(b)

Asset retirement obligation (ARO), Feb. 28, 2014 (from above)	$15,635
2014 interest expense ($15,635 X 6% X 10/12)	782
Balance of ARO, December 31, 2014	16,417
2015 interest expense ($16,417 X 6%)	985
Balance of ARO, December 31, 2015	17,402
2016 interest expense ($17,402 X 6%)	1,044
Balance of ARO, December 31, 2016	$18,446

(c)

Unearned warranty revenue recorded in 2014 ($970 X 20)	$19,400
Portion unearned at December 31, 2014	X 75%
Unearned warranty revenue, December 31, 2014	$14,550

P 13-4 (Continued)

(d) Warranty expense on the 2014 income statement will be $2,700.

(e)

HST collected on sales (and therefore payable to the government) (20 machines X $12,000 X 15%).....	**$36,000**
HST paid on purchase of underground tanks (and therefore receivable from government) ($110,000 X 15%)	**16,500**
	$19,500

Healy will send a cheque to the federal government for $19,500 to pay its net HST liability.

(a) Healy's warranty obligation represents a stand-ready obligation to provide parts and labour under the warranty agreement at any time throughout the two-year contract period. This argument may support straight-line recognition of warranty revenue over the two-year contract term. On the other hand, if historical evidence indicates that warranty services are usually provided later in the two-year warranty period, a higher proportion of warranty revenue is actually earned in the later years of the contract period, and a higher proportion of warranty revenue should be recognized later in the contract. This would result in lower warranty revenue and net income in year 1, and a higher unearned warranty revenue liability in year 1.

P 13-4 (Continued)

(e) Continued

In this case, the company's 25% estimate of warranty revenue being earned in 2014 looks realistic. The $2,700 of costs incurred in 2014 is exactly 25% of the estimate of total costs over the three years. In addition, if the assumption is that the warranties have been outstanding, on average, for half a year in 2014, they will be outstanding also for a full year in 2015 and the remaining half year in 2016. This supports an assumption of being earned evenly over the two year warranty period.

A financial statement user should be aware that accounting for warranties affects liabilities on the statement of financial position, as well as revenue and net income on the income statement, for multiple periods. If unsupported or biased assumptions are used in accounting for warranties, the resulting financial statements may not reflect the appropriate financial position or performance of the company.

P 13-9

(a) ASPE

1. **Unearned Subscriptions Revenue 400,000**
Sales Revenue 400,000
(To record subscriptions earned during 2014)

Carrying amount balance of liability account at 12/31/14	**$2,300,000**
Adjusted balance ($600,000 + $500,000 + $800,000)	**1,900,000**
Credit to sales revenue account	**$ 400,000**

2. **No entry should be made to accrue for an expense, because the absence of insurance coverage does not mean that an asset has been impaired or a liability has been incurred as of the balance sheet date. The company may, however, appropriate retained earnings for self-insurance as long as actual costs or losses are not charged to the appropriation of retained earnings and no part of the appropriation is transferred to income. Appropriation of retained earnings and/or disclosure in the notes to the financial statements are not required, but are recommended.**

3. **Litigation Expense 300,000**
Litigation Liability 300,000
(To record estimated minimum damages on breach-of-contract litigation)

Note disclosure would also be required indicating the nature of the loss contingency and that there is an exposure to loss in excess of the amount recorded.

P 13-9 (Continued)

4. **No entry should be made for this loss contingency, because it is not likely that an asset has been impaired or a liability has been incurred and the loss cannot be reasonably estimated as of the balance sheet date. The company must however disclose the guarantee in the notes to its financial statements, even if the likelihood of loss is remote. The note disclosure should include the nature of the guarantee, the maximum potential amount of future payments, the nature and extent of any recourse provisions and the carrying amount of any liability.**

5. **No entry should be made since it does not represent a liability at the balance sheet date. The company should have a note disclosure for this contractual obligation since it represents a major capital expenditure commitment.**

6. **No entry should be made for this loss contingency, because it is not likely that an asset has been impaired or a liability has been incurred and the loss cannot be reasonably estimated as of the balance sheet date. The loss contingency should be disclosed in the notes to financial statements.**

P 13-9 (Continued)

(b) IFRS

3. IAS 37 would be similar to the ASPE standard except that under IAS 37, provisions are required for situations where it is "probable" or "more likely than not" that a present obligation exists. This is a somewhat lower hurdle than the "likely" required under ASPE. If the amount cannot be measured reliably, no liability is recognized under IFRS either; however, the standard indicates that it is only in very rare circumstances that this would be the case. If recognized, IAS 37 requires that the best estimate and an "expected value" method be used to measure the liability. This approach assigns weights to the possible outcomes according to their associated probabilities when measuring the amount of the provision, if a range of possible amounts is available.