

ACCA F8 Practice and Revision Kit

For exams in September 2016, December 2016, March 2017 and June 2017

Q79

The correct answer should be

Accounting treatment: No provision but disclose as a contingent liability

Reason: A possible obligation exists, depending on whether or not some uncertain future event occurs

Explanation

A provision would not be recognised as there is no present obligation to pay compensation (as this depends on the outcome of the legal case which is yet to be concluded) and payment is not estimated to be probable (there is only a 35% chance of the claim succeeding).

Where there is a possible obligation that arises from past events and whose existence will be confirmed by the outcome of uncertain future events IAS 37 requires a contingent liability to be disclosed (ISA 37: paras 10 & 28). This applies in this situation as it is possible that the court will conclude that compensation should be paid by Newthorpe.