

PSAB

At a Glance

Section PS 3300 - Contingent
Liabilities

Section PS 3300 - *Contingent Liabilities*

Contingent liabilities

- Contingent liabilities are distinct from liabilities since there is a degree of uncertainty as to whether a present obligation to sacrifice economic benefits exists at the financial statement date.
- Contingent liabilities have two basic characteristics:
 - There must be an existing condition or situation; and
 - There must be an expected future event that will resolve the uncertainty as to whether a present obligation to sacrifice economic benefits exists. This event cannot be wholly within the control of the reporting government.

Existence uncertainty

- The following range of probabilities express the uncertainty relating to the occurrence or non-occurrence of the future event(s) confirming that a liability exists at the financial statement date:
 - Likely - the probability of the occurrence / non-occurrence of the future event is high;
 - Unlikely - the probability of the occurrence / non-occurrence of the future event is slight; and
 - Not determinable - the probability of the occurrence / non-occurrence of the future event cannot be determined.

Recognition

- A contingent liability must be recognized in the financial statements when:
 - It is likely that a future event will confirm a liability has been incurred at the date of the financial statements; and
 - A reasonable estimate of the amount can be made.
- A contingent liability must be derecognized when:
 - It is settled or otherwise extinguished; or
 - It is determined that the existence of a liability at the financial statement date is unlikely.
 - If it is determined that the future confirming event associated with the accrued contingent liability is unlikely to occur, the derecognition of the contingent liability would be accounted for in accordance with Section PS 2120, *Accounting Changes*, in the current period and not as a prior period adjustment.

Measurement

- The carrying amount of a contingent liability must be continually assessed.
- A change in the estimate of the contingent liability would be accounted for in accordance with Section PS 2120.
- When a recognized contingent liability is mitigated by a counterclaim or another claim against a third party and the probability of recovery is likely, this amount would be taken into account when determining the amount of the contingent liability.

Disclosure

- In any of the following situations, a contingent liability in existence at the date of the financial statements must be disclosed:
 - The occurrence of the future confirming event is likely:
 - But the amount of the liability cannot be reasonably estimated; or
 - An amount has been accrued, but the entity is exposed to a liability that is greater than the amount accrued in the financial statements; or
 - The occurrence of the future event is not determinable.
- Refer to paragraph PS 3300.28 for guidance on what information must be disclosed.

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