EX 15 Non-Financial Liabilities – Exercises

1. Explain the difference between a liability, a provision and a contingent liability.
2. A manufacturing company incurs ordinary maintenance expenditure each year and every five years undertakes extraordinary maintenance expenditure for major items of plant and equipment. How should the company account for the ordinary maintenance and extraordinary maintenance expenditure?
3. A company with a December year end decides to close a loss making division in the following year and has estimated that this will result in cash outflows of € 5 million for redundancy payments, cancellation of onerous contracts and the write-down of inventories to net realizable value. At the end of the year the company has not yet communicated its decision to its employees, the trade unions, its customers or its suppliers. When should the company record this provision?
4. An oil company operating a drilling platform in the North Sea is required by its license agreement to remove the oil rig and restore the sea bed at the end of production. How should the company account for the cost of this?

5. A company is being sued by a former employee for wrongful dismissal and is claiming three years salary amounting to €500,000. The case has not yet reached trial and the outcome is uncertain. What considerations should the company make in deciding whether to record a provision for this matter?