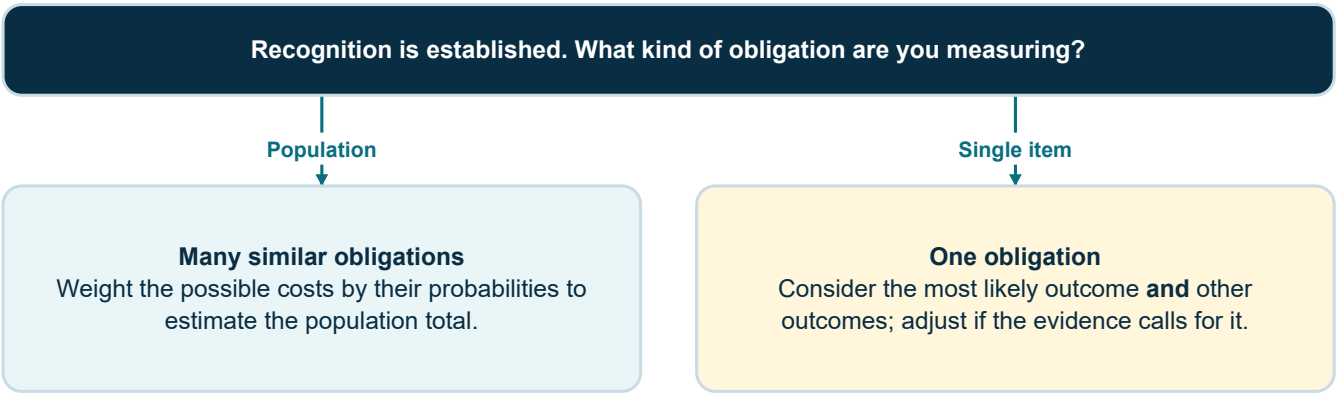
Choose the estimation method

MODULE 3 / MEASUREMENT / 1 OF 3

Measure the best estimate of the expenditure to settle or transfer the present obligation at the reporting date. Evidence, risk, uncertainty and the type of obligation matter. Recognition must already be justified.



Sable: an original warranty population

1,600 products carry assurance-only warranties. Estimate 76% no repair, 18% minor repairs at $35 each and 6% major repairs at $190 each. The probabilities are illustrative assumptions, not recognition thresholds. Discounting is immaterial.

Outcome	Probability	Cost per unit	Weighted cost
None	76%	0	0.00
Minor	18%	35	6.30
Major	6%	190	11.40
Total	100%		17.70

Expected cost = 1,600 x 17.70 = 28,320. No opening provision. Assess the population as a whole, not the likelihood of a claim for just one unit.

Recognise the warranty obligation

Dr Warranty expense	**28,320**
Cr Warranty provision	**28,320**

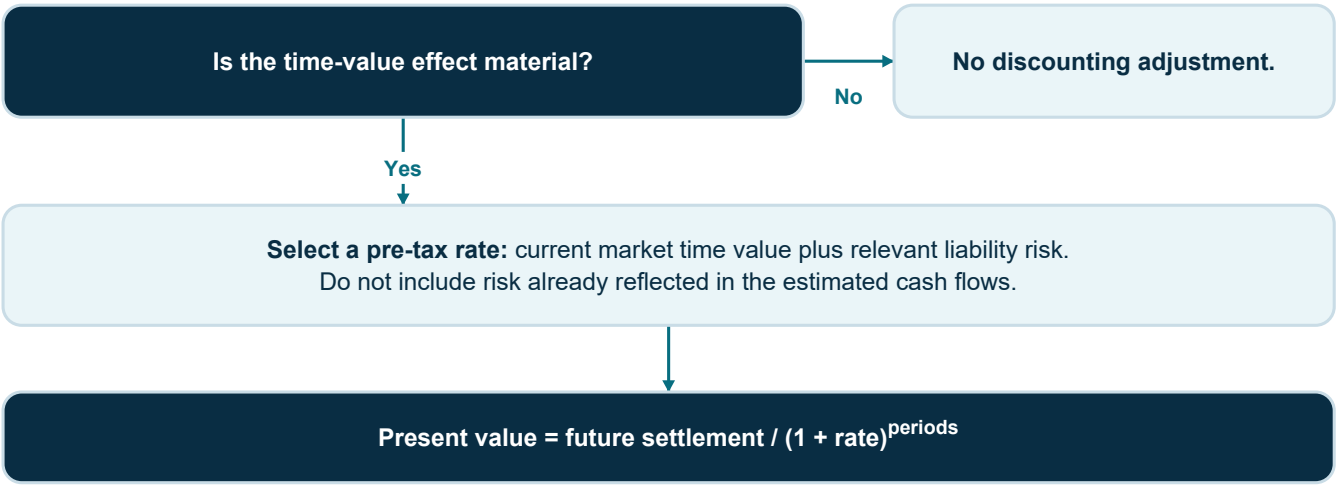
For a continuous range from $18,000 to $30,000 in which every point is equally likely, midpoint = (18,000 + 30,000) / 2 = **24,000**. Do not use the midpoint when the evidence is uneven.

Include risk without deliberate overprovision or double-counting in both cash flows and rate.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 36-44. Original dataset and workings.

Discount, then unwind

MODULE 3 / PRESENT VALUE / 2 OF 3



Rill has already caused damage that creates an obligation. Settlement is reliably estimated at $44,100 after two years. A suitable pre-tax rate is 5%; assume the time value is material and no asset qualifies for capitalisation. No new estimate or rate changes occur.

Present value = 44,100 / 1.05 squared = 40,000.

Point	Movement	Provision
Initial recognition	Present value	40,000
End of year 1	40,000 x 5% = 2,000	42,000
End of year 2	42,000 x 5% = 2,100	44,100
Settlement	Cash paid (44,100)	0

Initial recognition

Dr Restoration expense	40,000
Cr Provision	40,000

End of year 1

Dr Finance cost	2,000
Cr Provision	2,000

End of year 2

Dr Finance cost	2,100
Cr Provision	2,100

Settlement

Dr Provision	44,100
Cr Cash	44,100

A related asset is debited instead when another standard requires it. Reassess the best estimate each reporting date; do not offset expected asset-disposal gains. Estimate changes differ from the passage-of-time unwind.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 45-52 and 59-60. All amounts and assumptions are original.

Separate recoveries; reconcile movement

MODULE 3 / JOURNALS / 3 OF 3

An entity owes $26,000. An insurer will reimburse $19,000 and receipt is virtually certain if the entity settles. Recognise a **separate** reimbursement asset capped at the provision; do not reduce the liability to $7,000.

Recognise obligation

Dr Expense	26,000
Cr Provision	26,000

Recognise qualifying recovery

Dr Reimbursement asset	19,000
Cr Recovery of expense	19,000

Settle obligation

Dr Provision	26,000
Cr Cash	26,000

Collect reimbursement

Dr Cash	19,000
Cr Reimbursement asset	19,000

Net related expense may be shown as $7,000. Before settlement and collection, show the $26,000 provision and $19,000 reimbursement asset separately. If recovery is only probable, do not recognise that asset.

A separate provision movement check

Movement	Amount
Opening provision	21,000
New qualifying additions	13,500
Settlement expenditure used	(8,200)
Unused amounts reversed	(1,700)
Discount unwinding	900
Closing provision	25,500

Use a provision only for the expenditure for which it was recognised. Review and reverse when a probable outflow is no longer expected. Settlement and reversal are different movements: one pays an obligation, the other releases an estimate.

Disclose the required class-by-class reconciliation, nature, timing, uncertainty and expected reimbursement information. Comparative reconciliation figures are not required by IAS 37 paragraph 84.

Historical accounting context: October 2022. Original Accounting Ahead examples and design. Supplementary reimbursement mechanics: AASB 137 (December 2021): standards.aasb.gov.au/aasb-137-dec-2021, paragraphs 53-61 and 84-85. Reconciliation is independent of the reimbursement example.