

## **Exposure Draft**

### **Onerous Contracts – Cost of Fulfilling a Contract**

#### **(Amendments to Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*)**

(Last date for Comments: March 20, 2021)



Issued by  
Accounting Standards Board  
The Institute of Chartered Accountants of India

## Exposure Draft

### Onerous Contracts– Cost of Fulfilling a Contract (Amendments to Ind AS 37)

Following is the Exposure Draft of the proposed Amendments to Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, issued by the Accounting Standards Board (the Board) of the Institute of Chartered Accountants of India for comments. The Exposure Draft proposes amendments to Ind AS 37 to specify which costs an entity shall include in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, so as to be received not later than **March 20, 2021**.

1. Electronically: Click on <http://www.icai.org/comments/asb/> to submit comments online. (Preferred method)
2. Email: Comments can be sent to [commentsasb@icai.in](mailto:commentsasb@icai.in)
3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to [asb@icai.in](mailto:asb@icai.in).

## Exposure Draft of Onerous Contracts—Cost of Fulfilling a Contract (Amendments to Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*)

Paragraphs 68A, 94A and 105 are added and paragraph 69 is amended. Paragraph 68 is not amended, but is included for ease of reading. New text is underlined and deleted text is struck through.

### Application of the recognition and measurement rules

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#### Onerous contracts

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68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:

(a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) an allocation of other costs that relate directly to fulfilling contracts— for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets ~~dedicated to that~~ used in fulfilling the contract (see Ind AS 36).

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### Transitional provisions

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94A Onerous Contracts—Cost of Fulfilling a Contract, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

### Effective date

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105 *Onerous Contracts—Cost of Fulfilling a Contract*, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 April 2022<sup>1</sup>.

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<sup>1</sup> Subject to notification by the Ministry of Corporate Affairs (MCA) with the same date.