



Financial Reporting Standards Council

***Onerous Contracts –
Cost of Fulfilling a Contract
(Amendments to PAS 37)***

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(Amendments to PAS 37)***

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FRSC PREFACE TO *ONEROUS CONTRACTS – COST OF FULFILLING A CONTRACT* (AMENDMENTS TO PAS 37)

1. The Financial Reporting Standards Council (FRSC) has approved on August 19, 2020 the adoption of amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets, Onerous Contracts – Cost of Fulfilling a Contract* issued by the International Accounting Standards Board (IASB) in May 2020 as amendments to PAS 37 *Provisions, Contingent Liabilities and Contingent Assets, Onerous Contracts – Cost of Fulfilling a Contract*.
2. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
3. An entity shall apply these amendments to contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022. Earlier application is permitted.

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(AMENDMENTS TO IAS 37)**

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LIABILITIES AND CONTINGENT ASSETS

May 2020

IFRS® Standards

Onerous Contracts— Cost of Fulfilling a Contract

Amendments to IAS 37

IASB®

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Onerous Contracts – Cost of Fulfilling a Contract

Amendments to IAS 37

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Amendments to IAS 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

...

Onerous contracts

...

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 IAS 36).

...

Transitional provisions

...

94A Onerous Contracts—Cost of Fulfilling a Contract, issued in May 2020, 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

...

105 *Onerous Contracts—Cost of Fulfilling a Contract*, issued in May 2020, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.



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