What is the difference between a provision and a contingent liability?

GRAP 19 on Provisions, Contingent Liabilities and Contingent Assets

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ACCOUNTING STANDARDS BOARD

Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Provision versus contingent liability

Provision

- Liability of uncertain timing or amount
- To recognise a provision there must be (a) a present obligation that arises from a past event, and (b) the recognition criteria must be met

Contingent liability

A possible obligation that

(a) arises from a past event – existence will be confirmed only by occurrence or non-occurrence of uncertain future events not within entity's control; and/or

(b) recognition criteria are not met

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Provision versus contingent liability

Is there a past event?

AND

Have the recognition criteria been met?

Entity has no realistic alternative but to settle an obligation

Legal obligation

Constructive obligation

- probable that an outflow of resources embodying economic benefits or service will be required to settle obligation; **and**
- a reliable estimate can be made of amount

Refer to GRAP 19 for guidance

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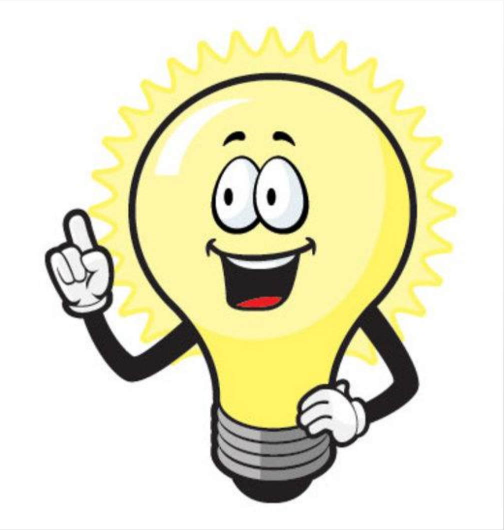
Provision versus contingent liability

Meeting the recognition criteria:

- Probable means that transaction is more likely than not to occur
- Estimations – entity is able to determine a range of possible outcomes



Provision versus contingent liability

	Present obligation	Probable outflow of economic benefits or service potential	Reliable estimate can be made
Provision	✓	✓	✓
Contingent liability	Occurrence or non-occurrence to be confirmed	N/A	N/A
Contingent liability	✓	✗	✓
Contingent liability	✓	✓	✗
Contingent liability	✓	✗	✗

Example 1

Entity is operating a landfill site and is required in terms of legislation to restore site after its use

Present obligation	Probable outflow of economic benefits or service potential	Reliable estimate can be made
Yes – operating landfill site	Yes – entity has legal obligation to restore the site	Yes – cost to restore site is known/can be estimated

= meeting the definition of a PROVISION

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Example 2

Entity sued by member of public who was injured due to poor maintenance of city sidewalk

Present obligation	Probable outflow of economic benefits or service potential	Reliable estimate can be made
Yes – entity was sued and case has commenced so entity has a present obligation	No – legal process not yet commenced and not yet probable	No – amount cannot be measured reliably

= meeting definition of CONTINGENT LIABILITY

Accounting

GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets* requires:

Provision:

Recognised as liability in financial statements

Contingent liability:

No recognition

Only disclose information

ACCOUNTING STANDARDS BOARD

Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za

GRAP Knowledge Hub: