

2200 Contingent Liabilities

A. Overview

Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits. The two basic characteristics of contingent liabilities are:

- there is an existing condition or situation at March 31st that indicates there may be a liability; and
- there is an expected future event that will resolve the uncertainty related to the existence of a liability at year-end. (The confirming event proves or disproves the existence of the liability.)

It is important to note that “uncertainty” here differs from “measurement uncertainty”. For example, there may be measurement uncertainty related to an accounts payable balance reported in financial statements. However, there is no doubt that the accounts payable balance exists (i.e., there is no uncertainty).

The most common form of a contingent liability is legal action. Another type is loan guarantees; see [Appendix A - General Revenue Fund Year-end Procedures and Schedules](#) for further details.

B. Accountability

Ministries are responsible for maintaining working papers and files supporting contingent liabilities for internal and external audit and review.

Ministries are required to:

- establish and maintain accounting systems to collect, record and report information on their contingent liabilities;
- establish and maintain adequate internal control systems to ensure the accuracy and reliability of contingent liability information and reports;
- monitor the status of contingent liability balances and record transactions promptly and accurately; and
- ensure contingent liabilities that cannot be recorded are appropriately disclosed to the Provincial Comptroller’s Office in the year-end schedules.

C. Procedures

Accounting procedures for contingent liabilities are based on guidance outlined in the Public Sector Accounting Handbook section PS3300 Contingent Liabilities. Refer to PS3300 Contingent Liabilities for further guidance.

An expense and a payable for a contingent loss are recognized in the Summary financial

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C. Procedures *(continued)*

statements when it is likely that an amount will need to be paid and the amount can be reasonably estimated.

A contingent loss is disclosed in the notes to the Summary financial statements where:

- the contingent loss is likely but cannot be reasonably estimated;
- when exposure to loss is greater than the amount accrued; or
- the occurrence of the confirming future event is not determinable.

C1. Throughout the Year

To ensure the completeness and accuracy of reporting contingent liabilities, ministries should, among other things:

- communicate regularly with program staff to identify and analyze any potential for payment due to lawsuits, tax claims, pending litigation and other unrecorded possible obligations; and
- maintain an up-to-date list of unrecorded possible obligations, including any relevant details for the future tracking of contingent liabilities.

C2. Quarter end

Record an adjustment at quarter end where there has been a significant change in a contingent liability. A significant change related to legal action would generally be due to the settlement of litigation. For the purposes of quarter-end accruals, significant is deemed to be an amount in excess of \$1 million.

C3. Year end

Contingent Liability Resulting in an Expense

Ministries are required to set-up a liability and record an expense, by journal entry, for all contingent liabilities in which a loss is both likely and reasonably estimable. Contingent liabilities related to legal actions should be confirmed with the Ministry of Justice and Attorney General, both for the likelihood and estimated amount. When preparing the journal entry, special expense accounts will be used. When determining which account to use, consideration should be given to the type of claim and what expense code would be used if the liability were incurred through the regular process.

The following Change in Contingent Liability expense accounts are available:

- 519895 Change in Contingent Liability – salaries and benefits
- 521010 Change in Contingent Liability – goods and services
- 578100 Change in Contingent Liabilities – other expense

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C. Procedures (*continued*)

C3. Year end (*continued*)

In subsequent fiscal years, cash payouts of these contingent liabilities will be recorded in the Accounts Payable Module to the actual payee and charged to an appropriate expense account. An appropriate expense account is determined based on the type of claim and the expense code that would have been used if the expense were incurred through the regular process. The payee detail is shown in Volume 2 of the Public Accounts in the year the cash payout is processed.

The following two cash payout expense accounts are available for the expense-types that do not have “appropriate” expense accounts:

- 519750 Contingent liability payouts – salaries and benefits
- 578000 Contingent liability payouts – other expense

At the same time as the cash payout, any related amount that was set up in a change in liability expense account is reversed by journal entry, so there is no charge to the appropriation in the year of payout.

If the contingent liability is determined to be higher than the actual or estimated future payments, the excess should be recorded as revenue in account 486905 Change in Previous Years’ Estimates, rather than as a credit to expenditure, to avoid inappropriately increasing the appropriation.

Example 3.1

Ministry X recorded a \$50,000 expense on March 31 for an employment related claim. In the subsequent fiscal period, a \$45,000 cash payout was made to settle the claim.

Debit	519895 Change in Contingent Liability- salaries and benefits	50,000	
Credit	255600 Contingent Liability		50,000
* journal entry to record estimated employee related claim amount as of March 31			
Debit	519750 Contingent Liability Payouts – salaries and benefits	45,000	
Credit	25xxxx Accounts Payable		45,000
* invoice or debit memo to record actual cash payout of employee related claim in subsequent fiscal period			

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C. Procedures (continued)

C3. Year end (continued)

Example 3.1 (continued)

Debit	255600 Contingent Liability	50,000	
Credit	486905 Change in Previous Years' Estimates		5,000
Credit	519895 Change in Contingent Liability- salaries and benefits		45,000

* journal entry to reverse contingent liability in subsequent fiscal period (entry should be recorded at same time as the cash payout entry) and to record revenue for the over-accrual of the prior year

Contingent Liability Resulting in a Tangible Capital Asset

Asset addition account 199150 Land – Current Year Additions - Contingent Liabilities should be used to record a journal entry for contingent liabilities for land claims.

Cash payouts in the subsequent fiscal years of these contingent liabilities will be recorded in the Accounts Payable Module to the actual payee and charged to asset addition account 199100 – Land – Current Year Additions. The payee detail is shown in Volume 2 of the Public Accounts in the year the cash payout is processed. At the same time as the cash payout, any related amount previously set up in account 199150 is reversed by journal entry, so there is no charge to the appropriation in the year of payout.

When the payment amount is lower than the amount accrued as a contingent liability and a tangible capital asset acquisition in the prior year, the difference should be recorded as a credit to the tangible capital asset cost account, not the current year addition account, to avoid inappropriately increasing appropriation in the new year.

Example 3.2

Ministry X recorded \$100,000 on March 31 for a land claim. In the subsequent fiscal period, a \$90,000 cash payout was made to settle the claim.

Debit	199150 Land - Current Year Additions- Contingent Liabilities	100,000	
Credit	255600 Contingent Liability		100,000

* journal entry to record estimated land claim amount as of March 31

Debit	199100 Land- Current Year Additions	90,000	
Credit	25xxxx Accounts Payable		90,000

* invoice or debit memo to record actual cash payout of land claim in subsequent fiscal period

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C. Procedures *(continued)*

C3. Year end *(continued)*

Example 3.2 (continued)

Debit	255600	Contingent Liability	100,000	
Credit	199150	Land - Current Year Additions- Contingent Liabilities		90,000
Credit	191000	Land		10,000

* journal entry to reverse contingent liability in subsequent fiscal period (entry should be recorded at the same time as the cash payout entry) and to reduce the tangible capital asset cost account for the over-accrual of the prior year

Contingent Liability offset by a Contingent Asset

A contingent asset is allowed to be recorded only if it reduces the amount accrued for a related contingent liability and the probability of recovery is likely. In these cases, such recoveries are part of the measurement of the related contingent liability. The amount of the contingent asset reduces the amount of the related contingent liability and the net amount is recorded as a contingent liability. Refer to [Section 1400 - Contingent Assets](#).

Ministries are annually required to report contingent liabilities to the Provincial Comptroller's Office as outlined in [Appendix A - General Revenue Fund Year-end Procedures and Schedules](#).

D. Definitions

Contingent liabilities are possible obligations that may result in the future sacrifice of economic benefits.

E. References

[1400 Contingent Assets](#)

[Appendix A - General Revenue Fund Year-end Procedures and Schedules](#)

Public Sector Accounting Handbook

PS 3300 Contingent Liabilities

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