# Accounting Guidance
# Sindh Development and Maintenance of Infrastructure Cess

**The Institute of Chartered Accountants of Pakistan**
September 2026

## Section 1: Introduction and Background

The Sindh Development and Maintenance of Infrastructure Cess (the Sindh Infrastructure Cess) is a statutory levy imposed by the Government of Sindh (the Government) on goods entering or leaving the Province of Sindh (the Province) from or for outside Pakistan through air or sea ports. The Sindh Infrastructure Cess is charged on the basis of the value and net weight of goods, plus a per-kilometer distance covered within the Province using the infrastructure.

The Sindh Infrastructure Cess is administered by the Excise, Taxation and Narcotics Control Department of the Government of Sindh (the Department) and is distinct from federal customs duties, sales tax, and other federal levies. It is a provincial revenue instrument intended for the development and maintenance of the Province's infrastructure including roads, bridges, ports, public utilities, and ancillary facilities.

The legal basis for the Sindh Infrastructure Cess was originally section 9 of the Sindh Finance Act, 1994, which levied an Infrastructure Cess with effect from 1 July 1994. The current statutory framework is governed by the Sindh Development and Maintenance of Infrastructure Cess Act, 2017 (the 2017 Act), which was enacted by the Provincial Assembly of Sindh and received the Governor's assent on 21 April 2017. The 2017 Act was deemed to have taken effect from 1 July 1994, thereby validating all historical levies.

The Sindh Infrastructure Cess was disputed in courts between the companies and the Government since the time of Sindh Finance Act, 1994. Consequent to the enactment of 2017 Act, the Department issued demand notices to various companies on account of the Sindh Infrastructure Cess. These companies challenged the notices in Sindh High Court (SHC), which dismissed these appeals on June 4, 2021 and ordered that 2017 Act, promulgated retrospectively, is a valid law within the competence of Provincial Legislature. These companies filed appeals before the Honorable Supreme Court of Pakistan (SCP) against the SHC’s aforementioned judgement.

SCP vide judgement dated September 1, 2021, has suspended the SHC’s judgement dated June 4, 2021 (impugned judgement) and granted interim relief and directed that till further orders, operations of the impugned judgement will be suspended and also restrained the respondents i.e. the Department and Government from recovery of impugned the Sindh Infrastructure Cess as mentioned above. No final decision has been made by SCP on this matter till the date of issue of these Guidelines.

### Stakeholders of the Sindh Infrastructure Cess under the 2017 Act

I. **Government of Sindh**: Enacted and enforced the Sindh Infrastructure Cess through legislation and determined the rate, scope, and collection mechanism of the Sindh Infrastructure Cess. The Department carries the administrative authority delegated by the Government to collect, assess, and manage the Sindh Infrastructure Cess.

II. **Owner:** The person in whose name the goods are entering or leaving the Province from or for outside the country by air or sea and includes the clearing agent.

The term ‘Owner’ includes the person, entity, any company or association or body of persons, whether incorporated or not. We have used the term ‘entity’ throughout the document to refer to the term of “Owner’.

### Recent amendments in the 2017 Act

The Sindh Development and Maintenance of Infrastructure Cess (Amendment) Act, 2026 (the 2026 Amendment Act) was passed by the Provincial Assembly of Sindh on 13 February 2026.

Following are the key changes made in 2017 Act through the 2026 Amendment Act

**a) Settlement Agreement Framework (Sections 10A–10F)**

The core change of the 2026 Amendment Act is the Settlement Agreement mechanism under Sections 10A to 10F. Entities that have filed any appeal, constitutional petition, suit, or proceedings against levy of the Sindh Infrastructure Cess may, within two months of the commencement of the 2026 Amendment Act (extendable by Government by up to six months in total), enter into a Settlement Agreement with the Department.

The key terms of a Settlement Agreement are:

- **Payment Schedule (Section 10B):** The outstanding Sindh Infrastructure Cess liability is payable in a structured, non-uniform installment schedule i.e. 15% by 15 July 2026, 15% by 15 October 2026, 15% by 15 July 2027, and the remaining 55% in 48 equal quarterly installments commencing 15 July 2028.

- **Lump Sum Option (Section 10B Proviso):** An entity paying the entire outstanding liability in a single lump sum on or before 15 July 2026 is entitled to a prospective Sindh Infrastructure Cess rate of 0.80% (instead of the standard rate) until 30 June 2029.

- **Mandatory Litigation Withdrawal (Section 10C):** Execution of a Settlement Agreement requires unconditional withdrawal of all pending litigation and waiver of all claims, refunds, damages, and costs against the Government.

- **Default Consequences (Section 10D):** Any default in payment of an installment immediately terminates the Settlement Agreement. The original Sindh Infrastructure Cess rate applies from the date of default, and the entire outstanding liability becomes immediately recoverable.

- **Bar on Refund (Section 10E):** No refund or adjustment is admissible for any amount paid under a Settlement Agreement.

**b) Prospective Rate Reduction (Section 10F)**

Section 10F introduces a tiered rate structure for the prospective levy of the Sindh Infrastructure Cess on future consignments.

## Section 2: Key Accounting Consideration

### Nature of the Cess for Accounting Purposes

The Sindh Infrastructure Cess is a statutory levy imposed by legislation (The Sindh Development and Maintenance of Infrastructure Cess Act, 2017). Consistent with IFRIC 21 '*Levies*', the obligating event giving rise to the levy is determined by reference to the activity identified in the relevant legislation.

Paragraph 2 of IFRIC 21 states that the IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. Such paragraph also states that the accounting for a liability to pay a levy whose timing and amount is certain is also within the scope of IFRIC 21. Depending on the facts and circumstances existing at the reporting date, the obligation to pay Sindh Infrastructure Cass may represent either a liability of uncertain timing or amount (a provision within the scope of IAS 37) or, following execution of a Settlement Agreement under the 2026 Amendment Act, a liability to pay a levy whose timing and amount have become certain.

In this context, paragraph 4 of the Basis for Conclusions of IFRIC 21 states as follows:

*"One of the questions that was submitted was how to account for levies whose calculation basis uses data such as the gross amount of revenue, assets or liabilities. The Interpretations Committee noted that those levies do not meet the definition of income taxes provided in IAS 12 Income Taxes because they are not based on taxable profit. In two Agenda Decisions (published in March 2006 and May 2009), the Interpretations Committee (then called the IFRIC) noted that the term 'taxable profit' implies a notion of a net rather than a gross amount. In those Agenda Decisions,* ***<u>the Interpretations Committee also observed that any taxes that are not within the scope of other Standards (such as IAS 12) are within the scope of IAS 37</u>****. <u>The Interpretations Committee further observed that IAS 37 contains a definition of a liability and that a provision is defined in IAS 37 as a liability of uncertain timing or amount. The Interpretations Committee noted that the same recognition requirements should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, this Interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain."</u>*

As per above paragraph the IFRS Interpretations Committee earlier observed that any taxes that are not within the scope of other Standards (such as IAS 12) are within the scope of IAS 37. Accordingly, there exists specific guidance from IFRS Interpretation Committee on the accounting of legislative taxes (others than those accounted for IAS 12) i.e. to account for them under IAS 37. Therefore, the Sindh Infrastructure Cess Obligation, being a levy, should be recognised, measured and disclosed in accordance with IAS 37 and IFRIC 21.

This guidance may also be applied to any statutory obligation imposed by provisional or federal government under a legislation. Accordingly, entities can assess recognition, measurement, presentation and disclosure of their outstanding statutory obligations (other than those falling within ambit of IAS 12) by reference to the principles set out in this guidance, applying requirements of IAS 37 and IFRIC 21.

**The section below summarises the key accounting considerations relevant to the recognition, measurement and disclosure of the Sindh Infrastructure Cess obligation under IFRIC 21 and IAS 37, having regard to the 2026 Amendment Act and the Settlement Agreement framework introduced thereunder. Detailed requirements and guidance on each of these considerations, including specific application questions, are set out in Section 3 of this guidance.**

### Distinction between obligating event, recognition and settlement uncertainty

In the context of the Sindh Infrastructure Cess, entities are required to distinguish between three separate stages: (i) the existence of a legal obligation to pay the Sindh Infrastructure Cess arising from legislation, (ii) the recognition or disclosure of that obligation in the financial statements under IAS 37, and (iii) the stage at which uncertainties regarding the timing and amount of settlement of the Sindh Infrastructure Cess obligation have become resolved following execution of a Settlement Agreement under the 2026 Amendment Act.

Under IFRIC 21, the obligating event is the activity that triggers payment in accordance with legislation. For the Sindh Infrastructure Cess, the obligating event arises when goods enter or leave the Province of Sindh from or for outside the country, through air or sea, as specified in section 3 of The Sindh Development and Maintenance of Infrastructure Cess Act, 2017. This activity gives rise to a present legal obligation to pay the Sindh Infrastructure Cess, even where the amount, timing or likelihood of settlement remains uncertain at that point.

Following the occurrence of the obligating event, the recognition of the Sindh Infrastructure Cess obligation is assessed under IAS 37. Where an outflow of resources is probable and can be reliably measured, a provision is recognised. Where those recognition criteria are not met, the obligation is disclosed as a contingent liability as per requirements of IAS 37.

The execution of a Settlement Agreement under the 2026 Amendment Act does not create the underlying Sindh Infrastructure Cess obligation. Rather, it provides additional evidence regarding the amount and timing of settlement of an obligation that already exists under the legislation. In many cases, the Settlement Agreement under the 2026 Amendment Act may substantially reduce or eliminate the uncertainties that previously existed in relation to the amount and timing of settlement of the Sindh Infrastructure Cess obligation. Accordingly, the entities need to continuously assess the accounting treatment of the Sindh Infrastructure Cess based on the specific facts and circumstances.

### Recognition and measurement of the obligation

While recognising an obligation for the Sindh Infrastructure Cess in accordance with IFRIC 21 and IAS 37, or upon reassessment of a previously recognised or disclosed obligation for the Sindh Infrastructure Cess, entities should determine the appropriate measurement of that obligation having regard to the latest available information regarding the amount and timing of settlement.

- Where an entity has not previously recognised or disclosed an obligation for the Sindh Infrastructure Cess, it should first assess whether the recognition criteria under IAS 37.14 are satisfied and, if so, recognise and measure the obligation in accordance with IAS 37 at that point.

- Where an entity has already recognised a provision for the Sindh Infrastructure Cess, the effect of entering into a Settlement Agreement under the 2026 Amendment Act should generally be reflected through a reassessment of the existing provision in accordance with IAS 37.59, using the best estimate of the expenditure required to settle the obligation as required by IAS 37.36.

Where the effect of the time value of money is material, the obligation for the Sindh Infrastructure Cess should be measured at the present value of the expected future cash outflows in accordance with IAS 37.45 - 47. In such case, the increase in the carrying amount resulting from the passage of time should be recognised as a borrowing cost in accordance with IAS 37.60.

### Consideration of default provisions and their impact

Settlement Agreements entered into under the 2026 Amendment Act include significant default provisions under section 10D of the 2026 Amendment Act. In particular, failure to comply with the agreed installment schedule results in immediate termination of the Settlement Agreement and acceleration of the full outstanding liability.

Accordingly, entities should consider whether such provisions introduce variability in the timing and amount of expected cash outflows of the Sindh Infrastructure Cass obligation. Further, the measurement of Cess obligation should consider whether, based on facts and circumstances existing at the reporting date, the likelihood of default affects management's best estimate of the expenditure required to settle the obligation, consistent with the principles in IAS 37 (paragraphs 36–37). *[Please refer response to Question no. 5 of Section 3 of this Guidance.]*

## Presentation and disclosure considerations

Entities should provide disclosures that appropriately reflect the judgement, uncertainty and risks associated with obligations arising from Settlement Agreements in accordance with IAS 1 and IAS 37.

In particular, disclosures should include (where material):

- significant judgements applied in assessing compliance with settlement terms and the likelihood of default (IAS 1.122);
- information about assumptions and sources of estimation uncertainty, including where measurement reflects variability in possible outcomes (IAS 1.125);
- a description of the nature of the obligation and the expected timing of cash outflows (IAS 37.85(a));
- information about uncertainties relating to the amount or timing of such outflows, including the impact of potential default or accelerated settlement (IAS 37.85(b)); and
- information relevant to understanding the timing and uncertainty of cash flows arising from the obligation, including liquidity considerations (IAS 1.112(c)).

Where relevant, entities should also disclose key assumptions concerning future events in accordance with IAS 37.85(b).

In developing these disclosures, entities may consider, by analogy, the disclosure principles in IFRS 7 relating to liquidity risk, to the extent they provide useful information to users of the financial statements, consistent with the guidance of IAS 8.10 - 12.

## Possible scenarios for accounting assessment of the Sindh Infrastructure Cess Obligation under the 2026 Amendment Act.

The following scenarios and related accounting considerations may arise depending on how an entity has previously accounted for the Sindh Infrastructure Cess obligation and whether it enters into a Settlement Agreement:

| How Entity accounted for/ disclosed at the last reporting date | What entity may have decided in respect of 2026 Amendment Act and concluded on accounting of its obligation? | What are the key accounting considerations |
|---|---|---|
| Entity had recognised a liability or provision for the Sindh Infrastructure Cess | Entity enters into a Settlement Agreement and concludes that an obligation exists for Sindh Infrastructure Cess at a reporting period immediately after the 2026 Amendment Act | Execution of the Settlement Agreement does not create a new obligation; rather, it provides additional evidence regarding the amount and timing of settlement of an existing obligation arising from legislation. The entity should reassess the carrying amount of the obligation using the latest available information and determine the best estimate of the expenditure required to settle the obligation in accordance with IAS |

| **How Entity accounted for/ disclosed at the last reporting date** | **What entity may have decided in respect of 2026 Amendment Act and concluded on accounting of its obligation?** | **What are the key accounting considerations** |
|---|---|---|
| | | 37.36. The Settlement Agreement requires payment over 51 instalments extending for approximately 14 years and therefore may significantly affect management's assessment of the timing of settlement. Where the effect of the time value of money is material, the obligation should be measured at the present value of the expected future cash outflows in accordance with IAS 37.45–47. Any change arising from the revised estimate, including the introduction or revision of discounting assumptions, should be recognised as a change in estimate in accordance with IAS 37.59. The subsequent increase in the discounted obligation due to the passage of time should be recognised as a borrowing cost in accordance with IAS 37.60. |
| Entity had recognised a provision for the Sindh Infrastructure Cess | Entity does not enter into Settlement Agreement and continues to conclude that a provision exist for Sindh Infrastructure Cess at a reporting period immediately after the 2026 Amendment Act | The entity would continue to account for the obligation in accordance with IAS 37. Management should reassess the best estimate of the expenditure required to settle the obligation, taking into account all available information, including legislative developments, legal proceedings and management's expectations regarding timing and amount of settlement. Where material, the provision should be measured at present value in accordance with IAS 37.45–47. |
| Entity had disclosed a contingent liability for the Sindh Infrastructure Cess | Entity concludes that at a reporting period immediately after the 2026 Amendment Act, it has either:<br><br>• an obligation for the Sindh Infrastructure Cess requiring provision recognition; or | The entity should reassess the obligation based on the latest available information. If the recognition criteria in IAS 37.14 are satisfied, a provision should be recognised and measured using the best estimate required to settle the obligation. Where the |

| How Entity accounted for/ disclosed at the last reporting date | What entity may have decided in respect of 2026 Amendment Act and concluded on accounting of its obligation? | What are the key accounting considerations |
|---|---|---|
| | • a contingent liability requiring continued disclosure | effect of the time value of money is material, the provision should be measured at present value in accordance with IAS 37.45–47. If recognition criteria are not met, the entity should continue to disclose a contingent liability in accordance with IAS 37.86. |

The detailed accounting and financial reporting implications of above scenarios are discussed in the following section.

## Section 3: Financial Reporting Implications

### 1. What are the key considerations for management in determining the appropriate IFRS Accounting Standards applicable to the Sindh Infrastructure Cess obligation?

1.1. The determination of the appropriate IFRS Accounting Standard begins with an assessment of the nature of the Sindh Infrastructure Cess obligation. The Sindh Infrastructure Cess is a statutory levy imposed by the Government of Sindh through legislation and does not arise from a contractual arrangement between the Government and an entity. Accordingly, the obligation represents a legal obligation arising from legislation.

1.2. IAS 12 applies only to income taxes, being taxes based on taxable profit. The Sindh Infrastructure Cess is not based on taxable profit and therefore does not fall within the scope of IAS 12. The IFRIC Agenda Decision on IAS 12 Scope (March 2006) observed that taxes that are outside the scope of IAS 12 are within the scope of IAS 37.

1.3. The Sindh Infrastructure Cess also meets the definition of a levy within the scope of IFRIC 21, Levies. IFRIC 21 provides guidance on identifying the obligating event that gives rise to a liability to pay a levy imposed by government in accordance with legislation. For the Sindh Infrastructure Cess, the obligating event is the activity specified in the relevant legislation, namely the goods entering or leaving the Province from or for outside the country by air or sea. Furthermore, paragraph 4 of the Basis for Conclusions of IFRIC 21 states that the same recognition requirements of IAS 37 should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, the accounting for a liability to pay a levy whose timing and amount is certain is also addressed by IFRIC 21.

1.4. Accordingly, entities should apply:

- IFRIC 21 to determine when the obligating event occurs and when a present obligation arises; and
- IAS 37 to assess recognition, measurement, presentation and disclosure of the resulting obligation.

1.5. Execution of a Settlement Agreement under the 2026 Amendment Act does not create the underlying obligation. Rather, it provides additional evidence regarding the amount and timing of settlement of an existing obligation arising from legislation. The effect of a Settlement Agreement should therefore generally be reflected through reassessment and remeasurement of the existing obligation in accordance with IAS 37, including consideration of the best estimate of the expenditure required to settle the obligation.

1.6. The Settlement Agreement permits settlement through 51 instalments extending over approximately 14 years. Consequently, entities should carefully assess whether the effect of the time value of money is material. Where material, the obligation should be measured at the present value of the expected future cash outflows in accordance with IAS 37.45–47, and the subsequent unwinding of the discount should be recognised as a borrowing cost in accordance with IAS 37.60.

1.7. Based on above, the management of an entity should therefore evaluate the nature of the obligation, the occurrence of the obligating event, the probability of settlement, the reliability of measurement, and the impact of the latest available information, including any Settlement Agreement entered into under the 2026 Amendment Act, in accordance with requirements of IFRIC 21 and IAS 37.

## 2. When should the Sindh Infrastructure Cess Obligation be recognised by an entity?

2.1. The timing of recognition of an obligation for the Sindh Infrastructure Cess should be determined by applying IFRIC 21 and IAS 37.

2.2. IFRIC 21 provides guidance on identifying the obligating event that gives rise to a liability for a levy imposed by government in accordance with legislation. Under IFRIC 21, a liability is recognised when the activity that triggers payment of the levy, as specified in the relevant legislation, occurs. For the Sindh Infrastructure Cess, the obligating event arises when goods enter or leave the Province through air or sea in circumstances that give rise to the levy under the applicable legislation.

2.3. The occurrence of the obligating event establishes the existence of a legal obligation. However, recognition of that obligation in the financial statements should be assessed in accordance with IAS 37 based on the facts and circumstances existing at the reporting date. Depending on those facts and circumstances, an entity may recognise a provision or disclose a contingent liability.

2.4. Entities should therefore distinguish between:

- the existence of a legal obligation arising from legislation;
- recognition of a provision under IAS 37;
- disclosure of a contingent liability under IAS 37; and
- subsequent reassessment of the obligation as additional information becomes available.

2.5. Execution of a Settlement Agreement under the 2026 Amendment Act does not create the underlying obligation. Rather, it provides additional evidence regarding the amount and timing of settlement of an existing obligation arising from legislation. Accordingly, execution of a Settlement Agreement may affect the assessment of recognition, measurement and disclosure of the obligation but should not generally be viewed as the event giving rise to the obligation itself.

2.6. Where a Settlement Agreement is executed after the reporting date but before the financial statements are authorised for issue, entities should assess the requirements of IAS 10 *'Events After the Reporting Period'*. Because the Settlement Agreement generally relates to an obligation arising from prior obligating events under IFRIC 21 and provides additional evidence regarding the amount and timing of settlement of that obligation, execution of the Settlement Agreement will often provide evidence of conditions that existed at the reporting date. However, the assessment requires judgement based on the specific facts and circumstances.

2.7. Entities should therefore apply a continuum of assessment, whereby an obligation arises from legislation following the occurrence of the obligating event identified by IFRIC 21, and is subsequently recognised, measured or disclosed in accordance with IAS 37 based on the facts and circumstances existing at the reporting date. Execution of a Settlement Agreement does not create the underlying obligation, but may provide additional evidence relevant to its recognition, measurement and disclosure.

## 3. How should the obligation for the Sindh Infrastructure Cess be measured upon execution of the Settlement Agreement?

3.1. The obligation for the Sindh Infrastructure Cess should be recognized and measured in accordance with IFRIC 21 and IAS 37.

3.2. Paragraph 36 of IAS 37 requires a provision to be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. In determining this amount, management should consider all relevant facts and circumstances existing at the reporting date, including applicable legislation, legal developments, available evidence and management's assessment of the expected settlement outcome.

3.3. Where an entity has entered into a Settlement Agreement under the 2026 Amendment Act prior to the reporting date, the agreed settlement terms provide relevant evidence regarding the amount and timing of settlement of the obligation and should be considered in determining the best estimate required by IAS 37.

3.4. The Settlement Agreement entered into under the 2026 Amendment Act permits settlement of the obligation through 51 instalments extending over approximately 14 years. Accordingly, entities should assess whether the effect of the time value of money is material. Where material, IAS 37 requires the obligation to be measured at the present value of the expenditures expected to be required to settle the obligation.

3.5. In determining the present value of the obligation, entities should apply IAS 37.47 and use a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which the estimated future cash flows have already been adjusted.

## 4. How should the present value of an obligation for the Sindh Infrastructure Cess be determined?

4.1. Where the effect of the time value of money is material, IAS 37 requires an obligation to be measured at the present value of the expenditures expected to be required to settle the obligation. Accordingly, an entity should estimate the future cash outflows expected to arise from settlement of the Sindh Infrastructure Cess obligation and discount those cash flows to their present value. IAS 37.45–47 provide the relevant guidance for determining present value.

4.2. The determination of present value requires management to exercise judgement in estimating both the amount and timing of the future cash outflows required to settle the obligation. In accordance with IAS 37.36, the obligation should be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. The estimate should reflect all available evidence, including legislative developments, court proceedings, legal opinions, Settlement Agreement, and other relevant facts and circumstances existing at the reporting date.

4.3. Where uncertainty exists regarding the amount required to settle the obligation, management should consider all possible outcomes in determining the best estimate. When one outcome appears more likely than other outcomes, that amount may represent the best estimate. Where there is a continuous range of possible outcomes and no point within the range is considered more likely than another, the midpoint of the range may represent the best estimate.

4.4. The determination of present value also requires an assessment of the expected timing of settlement. Where an entity has entered into a Settlement Agreement under the 2026 Amendment Act, the agreed payment schedule under such Settlement Agreement provides relevant evidence regarding the timing and pattern of future cash outflows. In particular, the Settlement Agreement permits settlement through 51 instalments extending over approximately 14 years. Accordingly, entities should carefully assess whether the effect of the time value of money is material and, where material, measure the obligation using the present value of the expected settlement cash flows.

4.5. In accordance with IAS 37.47, the discount rate to be used for measuring present value of obligation should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which the estimated future cash flows have already been adjusted, as this would result in double counting of those risks.

4.6. With regard to inclusion of entity's own credit risk in the discount rate, IAS 37 does not explicitly state whether or not own credit risk should be included. In March 2011, the IFRS Interpretations Committee (Interpretation Committee) in its agenda decision, *Inclusion of own credit risk in discount rate*, noted that IAS 37.47 states that "risks specific to the liability" should be taken into account in measuring the liability. The Interpretations Committee noted that IAS 37 does not explicitly state whether or not own credit risk should be included. The Interpretations Committee understood that the predominant practice today is to exclude own credit risk, which is generally viewed in practice as a risk of the entity rather than a risk specific to the liability.

4.7. As at the reporting date, the IASB's Exposure Draft *"Provisions—Targeted Improvements (Proposed amendments to IAS 37)"*, issued in November 2024, remains under consideration and has not yet been finalised or incorporated into IFRS Accounting Standards. The Exposure Draft proposes, among other changes, that provisions should be discounted using a risk-free rate reflecting only the time value of money, with no adjustment for non-performance (own credit) risk. If this proposal is ultimately adopted by IASB, it would represent a significant change in measurement by removing entity-specific credit risk from discount rates, likely resulting in higher provision amounts and enhancing comparability across entities through greater consistency in the determination of discount rates.

4.8. In accordance with IAS 37.48, future events that may affect the amount or timing of settlement should be reflected in the measurement of the obligation where there is sufficient objective evidence that those events will occur. Accordingly, entities should consider relevant future developments, including expected outcomes of legal proceedings, legislative developments, potential settlement arrangements, and other future events supported by objective evidence that may impact the measurement of the obligation.

4.9. The determination of present value therefore requires management to apply judgement in estimating the amount, timing and uncertainty of future cash outflows, using assumptions that are reasonable, supportable and consistent with the requirements of IAS 37. The resulting measurement should represent management's best estimate of the present value of the expenditure required to settle the obligation at the reporting date.

## 5. How should liability for the Sindh Infrastructure Cess be reassessed and subsequently re-measured?

5.1. An entity should review and reassess carrying amount of the Sindh Infrastructure Cess obligation at each reporting date and adjust it to reflect the current best estimate of the expenditure required to settle the obligation, in accordance with IAS 37.59.

5.2. In performing this reassessment, entities should consider all relevant information available at the reporting date, including legislative developments, Settlement Agreements, legal proceedings, legal advice, expected settlement outcomes and the impact of any default provisions.

5.3. Any changes in the estimated amount resulting from changes in timing or pattern of settlement, including changes in discounting assumptions where applicable, represent changes in accounting estimates and should be accounted for prospectively in accordance with IAS 8 and IAS 37.59.

## 6. How should the execution of a Settlement Agreement affect the accounting for a previously recognised or disclosed obligation?

6.1. Execution of a Settlement Agreement under the 2026 Amendment Act does not create the underlying Sindh Infrastructure Cess obligation. Rather, it provides additional evidence regarding the amount and timing of settlement of an existing obligation arising from such legislation. Accordingly, entities should reassess any previously recognised provision or disclosed contingent liability in light of the terms of the Settlement Agreement.

6.2. Where an entity has previously recognised a provision, the effect of entering into a Settlement Agreement should generally be reflected through a revision of the existing estimate in accordance with IAS 37.59, using the best estimate of the expenditure required to settle the obligation as required by IAS 37.36.

6.3. Where an entity has previously disclosed a contingent liability, execution of a Settlement Agreement under the 2026 Amendment Act may provide additional evidence relevant to the assessment of whether the recognition criteria in IAS 37 are met. If those criteria are satisfied, a provision should be recognised and measured in accordance with IAS 37.

6.4. Any resulting changes in the carrying amount of a previously recognised provision should be accounted for prospectively as changes in accounting estimates in accordance with IAS 37.59 and IAS 8.34.

## 7. How should unwinding of discount be accounted for?

7.1. Where an obligation for the Sindh Infrastructure Cess is measured at present value in accordance with IAS 37.45–47, the carrying amount of the obligation increases in each period to reflect the passage of time. This increase represents the unwinding of discount and is recognised as a borrowing cost in profit or loss in accordance with IAS 37.60.

7.2. The unwinding of discount in each period is calculated by applying the discount rate used in the most recent measurement of the obligation to the opening carrying amount for that period.

7.3. In accordance with IAS 37.59, an entity is required to review the Cess obligation at each reporting date and adjust its carrying amount to reflect the current best estimate. Where a revised discount rate is determined to be appropriate upon such reassessment, the unwinding of discount for the current period is first recognised using the opening carrying amount and the discount rate applied at the previous measurement date. The obligation is then remeasured, with the resulting change in carrying amount recognised as a change in accounting estimate in accordance with IAS 37.59 and IAS 8.34. The revised rate and revised carrying amount established at reassessment then form the basis for unwinding calculations in subsequent period.

## 8. How should liability for the Sindh Infrastructure Cess be presented in the financial statements?

8.1. The classification of an obligation for the Sindh Infrastructure Cess as current or non-current should be determined at the reporting date. IAS 1 paragraph 60 requires current and non-current liabilities to be presented separately in the statement of financial position, and paragraph 69 of IAS 1 sets out the criteria for classification.

8.2. Paragraph 75A of IAS 1 clarifies that if a liability has been determined to be non-current at the end of the reporting period, it continues to be classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorized for issue.

8.3. The amount of the Sindh Infrastructure Cess liability payable within 12 months of each reporting date would be classified as current liability, whereas, remaining amount should be presented under non-current liabilities, in light of requirements of paragraph 69 (c) & (d) of IAS 1.

### Presentation Considerations Under IFRS 18 - Presentation and Disclosure in Financial Statements

8.4. IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027 and replaces IAS 1. Under IFRS 18, entities are required to classify all income and expenses into five categories: operating, investing, financing, income taxes, and discontinued operations. The operating category is the residual category, meaning it includes all income and expenses not specifically classified elsewhere. Infrastructure Cess, being a statutory levy arising from the movement or handling of goods, does not meet the definitions of investing or financing activities. Accordingly, applying IFRS 18.52, the base cess expense (including provisions, remeasurements, and settlement-related gains or losses) is presented within the operating category of the statement of profit or loss unless such Cess forms part of cost of inventory or property, plant and equipment as explained in paragraph 8.6 below.

8.5. IFRS 18 introduces a clear distinction between the underlying nature of a liability and the type of expense arising from it. Even where a liability does not arise from financing activities (such as a statutory levy), IFRS 18 requires that interest expense and time value of money effects be classified in the financing category. Specifically, IFRS 18.61(a) requires that interest expenses on liabilities that do not arise solely from financing transactions are still classified within the financing category. Further, application guidance confirms that the increase in the discounted amount of a provision due to passage of time (unwinding of discount under IAS 37.60) is treated as financing in nature. Therefore, the interest expense arising from unwinding of the discounted Infrastructure Cess liability must be presented in the financing category, typically within finance costs, clearly separated from the operating expense component of the Infrastructure Cess [Refer B54(e) of IFRS 18].

8.6. However, the presentation of Infrastructure Cess in profit or loss depends on whether such cess qualifies for capitalization under the applicable IFRS Accounting Standards; specifically, to the extent that the Infrastructure Cess is directly attributable to bringing inventories to their present location and condition, it should be included in the cost of inventories in accordance with IAS 2 (consistent with the treatment of non-recoverable taxes or import duties), and accordingly should not be recognised immediately in profit or loss but should instead be recognised within cost of sales (operating category) when the related inventories are sold; similarly, where the Infrastructure Cess is non-recoverable and directly attributable to the acquisition, construction, or installation of an item of property, plant and equipment, such cess should be capitalised as part of the cost of the asset in accordance with IAS 16 and recognised in profit or loss over time through depreciation; conversely, where the Infrastructure Cess does not meet the criteria for capitalization under IAS 2 or IAS 16, including instances where it relates to historical arrears, or litigation settlements, it should be recognised immediately as an expense in the statement of profit or loss under IAS 1. In case of application of IFRS 18, the same should be presented within the operating category of the statement of profit or loss in accordance with IFRS 18.52.

## 9. Is the installment concession (deferred payment without interest) a government grant under IAS 20?

9.1. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, government grants are transfers of resources to an entity by a government - including local, national, or international agencies - in return for past or future compliance with specific conditions relating to the entity's operating activities. IAS 20 paragraph 10A also explains that the benefit of a government loan at a below-market interest rate is treated as a government grant.

9.2. Under the Settlement Agreement, the Government has agreed to recover the Sindh Infrastructure Cess arrears over approximately 14 years through installments instead of immediate lump-sum recovery. Further, no interest would be charged on the installment payments. The arrangement represents a settlement mechanism for recovery of statutory arrears under the 2026 Amendment Act. The deferred payment terms form part of the overall settlement arrangement linked with withdrawal of litigation against the Government in accordance with Section 10C of the 2026 Amendment Act.

9.3. In substance, the installment concession does not constitute a government grant within the scope of IAS 20. Although IAS 20.10A provides that the benefit of a government loan at a below-market rate of interest is treated as a government grant, the present arrangement does not represent a government loan but rather a rescheduling of an existing statutory obligation arising from Infrastructure Cess. The Government has not advanced funds or otherwise transferred economic resources to the entity; instead, it has agreed to defer recovery of outstanding dues as part of a negotiated settlement framework, which is also contingent upon withdrawal of litigation. Accordingly, the arrangement does not meet the definition of a government grant under IAS 20.3.

## 10. How should an entity account for the Sindh Infrastructure Cess obligation where the entity does not enter into a Settlement Agreement?

10.1. Where an entity has not executed a Settlement Agreement under the 2026 Amendment Act, the obligation for the Sindh Infrastructure Cess should be assessed and accounted for in accordance with IFRIC 21 and IAS 37 based on the facts and circumstances existing at the reporting date.

10.2. In such circumstances, the obligation typically represents a liability of uncertain timing or amount i.e. a provision within the meaning of IAS 37.10. Management should evaluate all relevant facts and circumstances existing at the reporting date, including applicable legislation, legal proceedings, court judgments, legal advice and other available evidence, to determine the appropriate accounting treatment.

10.3. Management should recognize a provision if it fulfills the criteria of IAS 37.14. Where the recognition criteria of IAS 37.14 are not met, the entity should disclose a contingent liability in accordance with IAS 37.86, unless the possibility of an outflow is remote.

10.4. The provision should be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date in accordance with IAS 37.36. Where the effect of the time value of money is material, the provision should be measured at present value in accordance with IAS 37.45 - 47. Given that no Settlement Agreement has been executed, the timing and amount of settlement remain uncertain and management should consider all possible outcomes, weighted by their respective probabilities in accordance with IAS 37.39, in determining the best estimate.

## 11. How a decrease in the provision for the Sindh Infrastructure Cess arising from the re-measurement of previously undiscounted provision at its present value, should be accounted for?

11.1. Provision for the Sindh Infrastructure Cess is an accounting estimate. IAS 37 in paragraph 59 requires that the provision should be reviewed at each reporting period and adjusted to reflect current best estimate.

11.2. IAS 8 in paragraph 34 explains that an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

11.3. There could be a scenario where an entity has recorded and reported a provision for the Sindh Infrastructure Cess, at the last reporting dates (e.g. December 2025 or March 2026). In principle, this reported amount of provision would be management's best estimate. In general, in most of the cases entities due to the pending legal proceedings (at last reporting date) would have undiscounted amount of provision reflected under the current liabilities in the financial statements.

11.4. The provision at the current reporting date would require reassessment and re-measurement. In consideration of latest developments, an entity may be required to discount the provision for the Sindh Infrastructure Cess to account for the impact of time value of money.

Due to discounting, the present value of provision at June 30, 2026 could result in a lower amount of provision compared to the previously reported amount at December 2025 / March 2026 (as previously reported amount was not discounted).

11.5. The decrease in the amount of provision in above circumstances is a change in accounting estimate and should be accounted for prospectively. IAS 37 does not discuss such a specific scenario of first time measurement of a previously undiscounted provision. In such a case, as an accounting policy choice, the effect of time value of money (arising from the re-measurement of previously undiscounted provision at its present value) could be recognised as ‘other income’ or as a remeasurement or reversal of the Sindh Infrastructure Cess provision presented within the appropriate line item to be disclosed within the statement of profit or loss.

## 12. Should an entity reassess the recognition and measurement of the Sindh Infrastructure Cess obligation at each reporting date?

12.1. Yes. In accordance with IAS 37.59, an entity should review and reassess carrying amount of the Sindh Infrastructure Cess obligation at the end of each reporting period and adjust it to reflect the current best estimate of the expenditure required to settle the obligation.

12.2. In performing this reassessment, management should consider all relevant information available at the reporting date, including legislative developments, Settlement Agreement, legal proceedings, legal advice, expected settlement outcomes and other relevant facts and circumstances.

12.3. The reassessment may affect both the recognition and measurement of the obligation. For example, an entity may conclude that:

- a previously recognised provision should be revised;
- a previously disclosed contingent liability should be recognised as a provision; or
- a previously recognised provision should be reversed where an outflow of resources is no longer probable.

Any resulting changes should be accounted for in accordance with IAS 37 and IAS 8 as appropriate.

This section provides an extract of the relevant paragraphs of IFRS Accounting Standards that have been discussed in this publication in context of accounting of the Sindh Infrastructure Cess Obligation.

**IAS 1 - Presentation of Financial Statements**

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| Paragraph 60 (Also refer paragraph 96 of IFRS 18) | An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76B except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity. |
| Paragraph 69 of IAS 1 (Also refer paragraph 101 of IFRS 18) | An entity shall classify a liability as current when:<br><br>(a) it expects to settle the liability in its normal operating cycle; [Refer: paragraphs 70, 76A and 76B]<br><br>(b) it holds the liability primarily for the purpose of trading; [Refer: paragraph 71]<br><br>(c) the liability is due to be settled within twelve months after the reporting period; or [Refer: paragraphs 71, 72, 76A and 76B]<br><br>(d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. [Refer: paragraphs 72A–76ZA Basis for Conclusions paragraph BC38P]<br><br>An entity shall classify all other liabilities as non-current. |
| Paragraph 75A of IAS 1 (Also refer paragraph B104 of IFRS 18) | Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. If a liability meets the criteria in paragraph 69 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 17(c) and 76(d)). |
| Paragraph 112 of IAS 1 (Also refer paragraph 113 of IFRS 18) | The notes shall:<br><br>(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;<br><br>(b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and<br><br>(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. |

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| Paragraph 122 of IAS 1 (Also refer paragraph 27G of IAS 8 as amended by IFRS 18) | An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. |
| Paragraph 125 of IAS 1 (Also refer paragraph 31A of IAS 8 as amended by IFRS 18) | An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:<br>(a) their nature, and<br>(b) their carrying amount as at the end of the reporting period. |

**IFRS 18 – Presentation and Disclosure in Financial Statements**

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| Paragraph 52 | An entity shall classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in (see paragraph B42):<br>(a) the investing category;<br>(b) the financing category;<br>(c) the income taxes category; or<br>(d) the discontinued operations category. |
| Paragraph 61 | For the liabilities specified in paragraph 59(b) (that is, liabilities that arise from transactions that do not involve only the raising of finance), except as set out in paragraphs 63–64, an entity shall classify in the financing category:<br>(a) interest income and expenses, but only if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards; and<br>(b) income and expenses arising from changes in interest rates, but only if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards. |
| Paragraph 96 | An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 99–102 except when a presentation based on liquidity provides a more useful structured summary. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B90–B93). |
| Paragraph 101 | An entity shall classify a liability as current when:<br>(a) it expects to settle the liability in its normal operating cycle (see paragraphs B96 and B107–B108); |

(b) it holds the liability primarily for the purpose of trading (see paragraph B97);

(c) the liability is due to be settled within 12 months after the reporting period (see paragraphs B97–B98 and B107–B108); or

(d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period (see paragraphs B99–B108).

Paragraph B53

Paragraph 59(b) requires an entity to identify liabilities that arise from transactions that do not involve only the raising of finance. Such liabilities include:

(a) payables for goods or services that will be settled in cash—an entity receives goods or services, not finance in the form described in paragraph B50(a);

(b) contract liabilities—an entity will return goods and services, not cash or its own equity instruments as described in paragraph B50(b);

(c) lease liabilities—an entity receives a right-of-use asset, not finance in the form described in paragraph B50(a);

(d) defined benefit pension liabilities—an entity receives employee services, not finance in the form described in paragraph B50(a);

(e) decommissioning or asset restoration provisions—an entity receives an asset that is not finance in the form described in paragraph B50(a); and

(f) a litigation provision—an entity does not receive finance as described in paragraph B50(a).

Paragraph B54

Examples of income and expenses from such liabilities that paragraph 61 requires an entity to classify in the financing category include:

(a) interest expenses on payables arising from the purchase of goods or services, applying IFRS 9;

(b) interest expenses on a contract liability with a significant financing component as specified by IFRS 15;

(c) interest expenses on a lease liability, applying IFRS 16;

(d) net interest expense (income) on a net defined benefit liability (asset), applying IAS 19; and

(e) the increase in the discounted amount of a provision arising from the passage of time and the effect of any change in the discount rate on provisions, applying IAS 37.

Paragraph B104

Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period. If a liability meets the criteria in paragraphs 101–102 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 6C(c) of IAS 8 and B105(d)).

**IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**

Paragraph 10

In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) relevant [Refer: *Conceptual Framework* paragraphs 2.6-2.11] to the economic decision-making needs of users; [Refer: *Conceptual Framework* paragraphs 1.2-1.10 and 2.36] and

(b) reliable, in that the financial statements:

(i) represent faithfully [Refer: *Conceptual Framework* paragraphs 2.12 and 2.13] the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance [Refer: *Conceptual Framework* Basis for Conclusions paragraphs BC2.32 and BC2.33] of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, [Refer: *Conceptual Framework* paragraph 2.15] i.e. free from bias;

(iv) are prudent; [Refer: *Conceptual Framework* Basis for Conclusions paragraphs BC2.34 and BC2.45] and

(v) are complete [Refer: *Conceptual Framework* paragraph 2.14] in all material respects.

Paragraph 11

In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements in IFRSs dealing with similar and related issues; and

(b) the definitions, [Refer: *Conceptual Framework* paragraphs 4.3–4.47 and 4.68–4.72] recognition criteria [Refer: *Conceptual Framework* paragraphs 5.6–5.25] and measurement concepts [Refer: *Conceptual Framework* Chapter 6 *Measurement*] for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*)

Paragraph 12

In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.

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| Paragraph 34 | An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error. |

**IAS 10 - Events after the Reporting Period**

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| Paragraph 8 | An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. |

**IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance**

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| Paragraph 3 | Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. |
| Paragraph 10A | The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate. |

**IAS 37 - Provisions, Contingent Liabilities and Contingent Assets**

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| Paragraph 14 | A provision shall be recognised when:<br>(a) an entity has a present obligation (legal or constructive) as a result of a past event; [Refer: paragraphs 17–22]<br>(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; [Refer: paragraphs 23 and 24] and<br>(c) a reliable estimate can be made of the amount of the obligation [Refer: paragraphs 25 and 26.]<br>[Refer: Implementation Guidance Part C examples 1–4, 5B, 8 and 10(b)]<br>If these conditions are not met, no provision shall be recognised.<br>[Refer: Implementation Guidance Part C examples 5A, 6, 7, 10(a), 11A and 11B] |
| Paragraph 36 | The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation [Refer: paragraphs 15 and 16] at the end of the reporting period. |
| Paragraph 39 | Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated |

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| | by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used. |
| Paragraph 45 | Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. |
| Paragraph 47 | The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks [Refer: paragraphs 42–44] for which future cash flow estimates have been adjusted. |
| Paragraph 48 | Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur. |
| Paragraph 59 | Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate [Refer: paragraphs 36–41]. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed. |
| Paragraph 60 | Where discounting is used, [Refer: paragraphs 45–47] the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost. |
| Paragraph 85 | An entity shall disclose the following for each class [Refer: paragraph 87] of provision:<br><br>(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;<br><br>(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; [Refer: Implementation Guidance Part D examples 1 and 2] and<br><br>(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement. [Refer: paragraphs 53–58] |
| Paragraph 86 | Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class [Refer: paragraph 87] of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:<br><br>(a) an estimate of its financial effect, measured under paragraphs 36–52;<br><br>(b) an indication of the uncertainties relating to the amount or timing of any outflow; and<br><br>(c) the possibility of any reimbursement |

**IFRIC 21**

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| Paragraph 2 | This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. [Refer: Basis for Conclusions paragraph BC4] |
| Paragraph BC4 | One of the questions that was submitted was how to account for levies whose calculation basis uses data such as the gross amount of revenue, assets or liabilities. The Interpretations Committee noted that those levies do not meet the definition of income taxes provided in IAS 12 Income Taxes because they are not based on taxable profit. In two Agenda Decisions (published in March 2006 and May 2009), the Interpretations Committee (then called the IFRIC) noted that the term 'taxable profit' implies a notion of a net rather than a gross amount. In those Agenda Decisions, the Interpretations Committee also observed that any taxes that are not within the scope of other Standards (such as IAS 12) are within the scope of IAS 37. The Interpretations Committee further observed that IAS 37 contains a definition of a liability and that a provision is defined in IAS 37 as a liability of uncertain timing or amount. The Interpretations Committee noted that the same recognition requirements should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, this Interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain. [Refer: paragraph 2] |