



## Provisions and Contingent Liabilities

### Determinants of recognition and compliance with regulations

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**Abstract:** Provisions and contingencies are one of the topics involving the calculation of estimates and the need to exercise professional judgement, thus playing an important role in the work of the accountant. This study aims to identify the determinants of the recognition of provisions by Portuguese companies and to assess the information disclosed as well as the degree of compliance with accounting standards (IAS 37). The first objective focuses on the individual financial statements of Portuguese companies for the year 2021. The data were collected from the Sabi database. The following variables were analysed: sector of activity; firm size; the influence of legal proceedings and audit status. The second objective focuses on Portuguese listed companies, using their annual reports for 2021. The information was collected through content analysis. Descriptive analyses and statistical tests were conducted to obtain the results of the study. It was concluded that Portuguese companies still have a long way to go in terms of the recognition and disclosure of provisions and contingent liabilities. This study contributes to the literature by analysing a particularly important issue in financial accounting, as it involves the use of estimates and requires professional judgement. Accordingly, it is essential to understand the determinants of provision recognition. Furthermore, this study encompasses both listed and unlisted companies. It is also worth noting that knowledge of compliance with accounting standards is of primary interest not only to internal and external stakeholders but also to financial institutions and others interested in financial information.

**Keywords:** Provisions; Contingent Liabilities; IAS 37; Financial Accounting; Portugal

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## 1 Introduction

The harmonisation of accounting, which essentially started in 2005, brought with it a clarification of the concept of provisions, especially in Portugal. According to Eugénio (2012, p. 3), "the subject of provisions, contingent liabilities and contingent assets deserves special attention in the accounting field, given the "struggle" that those responsible for preparing financial statements face with the uncertainties and risks that inevitably surround many events and circumstances". The author notes that when faced with a risky situation, accountants have to decide whether to recognise a provision, disclose the risk or take no action. Therefore, this topic requires careful analysis and in-depth knowledge of the technical guidelines for addressing provisions and contingent liabilities in accounting terms (Zhao, 2019; Hummel & Jacob, 2020; Du et al., 2011).

Costa & Alves (2014) point out that the liabilities incurred by any entity result from two types of events: certain and uncertain. Certain events are reflected in the financial statements at their certain or estimated amount. Uncertain events involve some risk or uncertainty and may or may not be reflected in financial statements.

The relevance of the issue of recognition and measurement of provisions has motivated the present examination of the Portuguese standard on the subject: Accounting and Financial Reporting Standard (NCRF) 21 - Provisions, Contingent Liabilities and Contingent Assets, a Portuguese standard published by the Accounting Standards Committee (CNC), and International Accounting Standards (IAS) 37 - Provisions, Contingent Liabilities and Contingent Assets, published by the International Accounting Standards Board (IASB). NCRF21 was modelled upon IAS 37, so the two standards are consequently closely aligned.

Given the scarcity of research on this subject in the Portuguese context, this study aims to determine whether companies recognise and disclose provisions and contingent liabilities, what are the determinants of this disclosure the nature of the obligations implicit in these standards and whether companies comply with them. Moreover, we also focus on whether contingent liabilities are adequately disclosed. Therefore, the general objective of this study is to draw conclusions on the recognition and disclosure of provisions and contingent liabilities by Portuguese companies.

Although there are some studies on this topic, it has been somewhat neglected in the Portuguese literature, and there are no recent national studies, nor any that focus on unlisted companies. Examples of relevant studies that focus on the Portuguese context include Oliveira (2007); Lopes (2014); Pequeno (2014) and Marques (2015), the first of which was based on interviews to assess whether Portuguese companies applied the accounting treatment expressed in IAS 37. The majority of others studies sought to assess compliance with IAS on provisions, using listed companies as a their sample, many of them for periods dating back more than ten years. Scare studies are recent as Haar et al. (2025) and Espíndula and Souza (2025).

Two main objectives have been defined for this study. Objective 1 focuses on the recognition of provisions and aims to characterise, in general and for the Portuguese

context, whether companies recognise provisions and what determines such recognition. For this test, the sample consisted of all Portuguese companies that reported their financial statements in 2021, according to the SABI database, totalling 373,980 companies. These companies were characterised according to their sector of activity, size in terms of type of company, number of employees and total assets, the influence of legal proceedings and whether they were audited. Statistical methods were applied using SPSS. Objective 2 aims to verify the characteristics and compliance of the reporting of provisions and contingent liabilities in accordance with IAS 37, taking as a sample all companies listed on Euronext Lisbon. According to Regulation (EC) 1606/2002 of 19/07/2002, all companies whose securities are admitted to trading on a regulated market are obliged to present their consolidated financial statements (FS) in accordance with IASB standards. Consequently, compliance was assessed based on the international standard (IAS 37) rather than the national standard (NCRF 21). The content analysis of the 2021 annual reports was employed to examine the recognition and disclosure of provisions and contingent liabilities in the consolidated financial statements of a sample of 37 companies. Statistical tests were also conducted.

The results indicate that companies still have considerable scope for improvement regarding provisions and contingent liabilities. This study has contributed to the literature by analysing an issue that involves the use of estimates and requires professional judgement. It is therefore important to understand what determines the recognition of provisions. Secondly, because it is one of the few studies to include an analysis of the recognition of provisions for unlisted companies. Thirdly, because knowledge of the determinants of provision recognition and compliance with accounting standards is of primary interest not only to internal and external stakeholders, but also to financial institutions and others interested in financial information. In addition, the findings provide further support for improved disclosure of provisions and contingent liabilities.

This research article is divided into six chapters, the first of which is this introduction. The second chapter presents a regulatory framework for the Portuguese context on provisions and contingent liabilities, concepts and disclosure. The next chapter reviews the relevant literature and presents and presents the research questions. The fourth chapter presents the methodology adopted, including the definition of the sample, data collection and data processing. The fifth chapter presents and discusses the results obtained. Finally, chapter six presents a conclusion of the findings of this research as well as its limitations and directions for future research.

## **2 Provisions and contingent liabilities**

### **2.1 Regulatory framework in the Portuguese context**

Accounting harmonisation currently plays an important role in accounting and several studies have focused on the adoption of international standards in different contexts. Adoption of IFRS for SMEs (Pais & Bonito, 2018); mandatory adoption of IFRS (Agarwal & Chakraverty, 2023; Wakil & Petruska, 2022); impact of IFRS on foreign direct investment

(Golubeva, 2020); adoption of IFRS sustainability standards (El Khatib, 2024), IFRS policy choice (Norbes & Perramon). The accounting standardisation system (SNC) in force in Portugal since 2010 is a good example of this harmonisation process. Until 2010, Portugal had the Official Accounting Plan (POC), which used the term provision to reflect two different realities: on the one hand, it was used as a liability of uncertain amount and/or timing (provision as a liability); on the other hand, it was also used to reflect potential losses on assets (provision as a reduction in assets).

Decree-Law (DL) 35/2005 amended the Official Accounting Plan (POC), clarifying the concept of provisions and including their information in the management report, particularly from the point of view of social and environmental reporting. This Decree-Law also allowed the adoption of IASB standards in the individual financial statements of listed companies and other companies with consolidated individual financial statements, provided that they are subject to the Legal Certification of Accounts (CLC). Regulation 11/2005 of the Portuguese Securities Market Commission (CMVM) also required the use of IASB standards in the financial statements of listed companies, as it would be inconsistent for listed companies applying different standards to coexist within the same market. As of January 2010, DL 158/2009, published in *Diário da República* (DR) 133, Series I of 2009-07-13, changed the POC to the current SNC based on IASB standards.

It should be noted that IAS 37 - Provisions, Contingent Liabilities and Contingent Assets was issued by the IASB in 1998. NCRF 21 - Provisions, Contingent Liabilities and Contingent Assets was issued on the basis of this standard and with the aim of harmonising national practices with the principles adopted internationally. This standard aims to prescribe the appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets.

In Portugal, NCRF 26 - Environmental Matters was also issued as part of the NCRF group and is the only NCRF not modelled upon IAS/IFRS. NCRF 26 was issued in response to the European Commission Recommendation of 30 May 2001, published in the *Official Journal of the European Communities* on 13 June 2001 (2001/453/EC). The objective of this Standard is to prescribe the criteria for recognising, measuring and disclosing environmental expenditures, environmental liabilities and environmental risks and related assets that may affect the financial position and results of operations. Several paragraphs deal with provisions and contingent liabilities (for environmental matters).

## 2.2 Concepts

In order to briefly review the concepts associated with this topic, we present some definitions based on the rules (IAS 37). A provision is a liability of uncertain timing or amount (IAS 37, § 10). A provision should be recognised only when all of the following conditions are met (1) an enterprise has a present obligation (legal or constructive) as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If these three conditions are not met, no provision should be recognised in the financial statements (in the case of provisions, recognition and disclosure may be made

in the balance sheet, income statement and notes). In the balance sheet, provisions are presented as current liabilities (or non-current, depending on their enforceability) and, if applicable, at their discounted value (Costa and Alves, 2014). In the income statement, they are presented as net amount, reflecting either increases or decreases. Provisions should be used only for the purpose for which they were created.

According to IAS 37, § 10, a contingent liability is: a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or b) a present obligation that arises from past events but is not recognised because: i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or ii) the amount of the obligation cannot be measured with sufficient reliability.

### **2.3 Disclosure of provisions and contingent liabilities**

Disclosure of financial information brings greater transparency and credibility. According to Lopes (2014), the disclosure of information is necessary to minimise the problem of information asymmetries. The author further notes that the disclosure of information can influence the decisions of stakeholders and boost financial markets. Several studies have looked at financial reporting, addressing different aspects such as financial reporting quality (Synn & Williams, 2024; Krishna et al., 2021; Ma et al. 2019). Financial information must be disclosed in a structured way, complying with quality requirements in order to guarantee its usefulness in decision-making processes. This is why the notes play a highly important role, because as well as helping with financial interpretation, they are the only means of disclosing contingent liabilities. The notes to the financial statements play the most important role in financial disclosure, where the information obtained is a support for decision-making, containing accounting, social and environmental information in accordance with the standards, thus constituting a pillar of these.

Oliveira (2007) points out that in contexts of uncertainty, reported results can be manipulated by the agent in order to achieve their personal objectives, by not applying the accounting standards, thus achieving their interests. We should therefore pay attention to the agency theory, in which Jensen & Meckling (1976) warn that contingencies or potential risks should be transmitted to the market, as this communication how the company reduces information asymmetry.

In agency theory, information asymmetries may exist between shareholders and managers, where managers may seek to achieve their own objectives rather than the interests of shareholders. According to Healy & Palepu (2001), disclosure plays an important role in minimising these asymmetries. As this study analyses disclosure in the notes to the financial statements: Notes to the Financial Statements, it is important to look at the content to be disclosed as mentioned in paragraphs 81 to 86 of NCRF 21 and paragraphs 84 to 92 of IAS 37. Also Ordinance No. 220/2015 of 24 July (which publishes the models of financial statements) in its Annex - General Model (Annex 6, paragraph 23).

Appendix 1 sets out the disclosures that an entity should make for each class of provisions and contingent liabilities.

### 3 Literature Review and Research Questions

#### 3.1 State of the literature on provisions and contingent liabilities

There are some studies on provisions in the literature. However, they tend to focus on large companies, which is justified by the fact that these companies are obliged to disclose and provide information. In the literature reviewed, studies were found in the Portuguese context and in other geographical contexts that analysed the recognition and reporting of provisions and contingent liabilities. It was possible to find some that focused on Portuguese listed companies, but with analyses of periods more than 10 years ago, for example: Oliveira (2007); Lopes (2014), Pequeno (2014), Marques (2015). Several studies have analysed other geographical contexts, such as Spain (Basílio, 2020), Brazil (Albuquerque & Faria, 2009; Portella et al., 2015; Leal et al., 2018), Turkey (Acar & Ozkan, 2017) and the USA (Hennes, 2014). It is also possible to find studies that have analysed this issue across countries, such as Klimczak (2017) and Lopes & Reis (2019). Some studies focus particularly in contingent liabilities as Irwin (2012) and Lagrange et al. (2015). Table 1 summarises selected studies, taking into account the objectives, the sample and the main conclusions.

**Table 1.** Studies on Provisions and Contingent Liabilities

Study	Objectives	Data	Methodology
Acar & Ozkan (2017)	To investigate the relationship between corporate governance and provisions recognised in accordance with IAS 37	Financial reports of companies listed on the Istanbul Stock Exchange	Quantitative
Oliveira (2007)	To check whether Portuguese companies complied with IAS 37 in 2000	Questionnaire to the 500 largest companies	Quantitative
Lopes (2014)	To analyse the disclosure of provisions and contingent liabilities and deferred taxes	47 non-financial companies listed on the Euronext Lisbon regulated market	Quantitative
Marques (2015)	analyse the level of compliance of the consolidated statements and the evolution of disclosure in the first year of application of the IAS/IRFS of the IASB	Sample of 13 entities listed on the PSI 20 index	Quantitative

For Khurana et al. (2001), complexity and uncertainty are the main impediments to quality financial reporting, since the recognition of a provision or the disclosure of a contingent liability sometimes depends on the accountant's judgement (for example when calculating value estimates). Albuquerque & Faria (2009) point out that the transparency of financial statements creates greater confidence among prospective investors, who are concerned not only with tax compliance but also with the overall transparency of companies. Lopes (2014) states that in times of uncertainty, information becomes a key

factor in decision-making. Provisions can play an important role in a company's accounts because, as Rodrigues (2012) warns, provisions are an area of accounting subject to manipulation by managers, 'when the aim is to reduce results and create "cushions" for future years, excessive provisions are made. On the other hand, if the results are not good, there is a temptation not to make the necessary provisions. So-called creative accounting actually has fertile ground in this area' (Rodrigues, 2012, p. 716).

This issue is extremely important, because not only can it be over-recognised or under-recognised, but it can also distort the true image of the company and cause information asymmetries. It is also a subject susceptible to 'creative accounting' / manipulation of results.

### 3.2 Research questions

The purpose of this study is to provide an overview of the Portuguese context regarding the current reporting of provisions and contingent liabilities, to identify the determinants of the recognition of provisions, the information disclosed and the compliance with accounting standards regarding the recognition and disclosure of provisions and contingent liabilities by Portuguese companies.

#### 3.2.1 Q1 - Determinants of the recognition of provisions

The objective is to answer the following question: Q1: What are the determinants of the recognition of provisions by all Portuguese companies? Sub-questions are formulated as follows: a) economic activity; Q1 b) size; Q1 b1) type of company; Q1 b2) number of employees; Q1 b3) balance sheet total; Q1c) influence of legal cases; Q1d) audited company.

Several studies relate the sector of activity to the recognition of provisions, such as Oliveira (2007) and Pequeno (2014). However, these studies did not find any statistically significant evidence that the sector of activity affects the recognition of provisions. Lopes (2014) found that there was a positive relationship between the disclosure of provisions and liabilities and the sector of activity, although it was not statistically significant. Given that the existing studies only cover listed companies, and that there are no studies covering the general universe of Portuguese companies, the following question was identified with the aim of understanding which sector recognises provisions the most:

*Q 1a) Which sectors of activity recognise the most provisions?*

There are several studies related to the recognition of provisions according to the size of companies. There are several possible criteria for measuring size. We have therefore chosen to analyse size in terms of type of company, number of employees and balance sheet total.

*Q 1b) Does the size of companies affect the recognition of provisions?*

Although unlisted companies have fewer disclosure requirements than listed companies, they are required to comply with accounting standards and therefore recognise provisions when they arise. Given the characteristics of DL98/2015 and trying to understand

whether it is micro, small, medium or large companies that mostly recognise provisions, the following question arises:

*Q1 b1) Which type of company recognises the most provisions?*

Another factor that measures the size of companies is the number of employees. As no studies have been found relating provision levels to the number of employees, and as accidents at work and occupational diseases are one of the classes of provision provided for by the SNC, the following question arises:

*Q1 b2) Do companies with more than 500 employees tend to recognise provisions?*

According to Pequeno (2014), the value of total assets is the variable most often used to test size. The studies by Leal et al. (2018) and Basílio (2020) examine the relationship between company size (through total assets) and the recognition and disclosure of provisions. As these studies focus on listed companies, the following hypothesis is posed for all Portuguese companies:

*Q1 b3) Is there a correlation between the amount of provisions recorded in the balance sheet and total assets?*

The Corporate Income Tax Code (IRC) stipulates that the costs of ongoing legal proceedings are tax deductible. In the studies by Oliveira (2007), Pequeno (2014) and Marques (2015), provisions for legal proceedings were the most publicised. No study was found that linked the existence of legal proceedings to the recognition of provisions.

Given that it is possible for companies to have access to legal cases, both on the Citius portal (<https://www.citius.mj.pt/portal/default.aspx>) and on the database platform of the Iberian Balance Sheet Analysis System (Sabi), the following question is considered:

*Question 1c) Is the recognition of provisions linked to the existence of published legal cases?*

Auditing plays a key role in our economy, namely in the credibility of financial statements and in the prevention and detection of errors and fraud. Lopes (2014) argues that audit firms make an important and decisive contribution to the legal certification of financial statements. As Albuquerque & Faria (2009) point out, contingencies are a challenge for accounting because they can be used as an instrument to manipulate the company's assets. Therefore, given the materiality and risks associated with provisions and contingent liabilities, it is also the auditor's responsibility to evaluate these matters carefully.

Costa (2014) points out that the work on provisions requires a great deal of sensitivity on the part of the auditor, given the enormous variety of provisions that can be set up and the practical impossibility of detailing all the procedures to be followed. After performing the appropriate procedures and tests, the auditor should be able to conclude whether NCRF 21 or IAS 37 and the internal control measures are correctly applied; the provisions set up are in accordance with the principles of prudence, including the characteristic of reliability; the balances of the various provisions are appropriate; and all information is adequately disclosed in the notes. Having reached his conclusions, the

auditor is able to draw up a report on the accounts and financial statements in which he expresses his opinion.

Since the existing studies only focus on listed companies that are obliged to be audited, and there are no studies that make this association between unlisted companies, the following question is considered:

*Question 1d) Is the recognition of provisions linked to the fact that the company is audited?*

### **3.2.2 Q2 - Compliance with accounting standards**

Question 2 aims to verify the information disclosed and the compliance of the reporting on provisions and contingent liabilities in accordance with IAS 37. The question is: Q2: What information is disclosed and how does it comply with the accounting standards? This question is based on Q2 a) Information disclosed: Classes of provisions and contingent liabilities; Q2 b) Compliance with the disclosure requirements of IAS 37 and their detail; Q2 c) References by auditors in the audit report (CLC) and association with "Big4".

With a sample of only listed companies (and not all Portuguese companies as in question 1), in addition to a quantitative analysis, a qualitative analysis was carried out, as described in the next section of the methodology. In this second objective, having collected the reports and accounts of listed companies, a complementary study to objective 1 was carried out, where in addition to recognition, the conformity of their disclosure was analysed.

Oliveira (2007) concludes that the most publicised provision charges in 2000 were after-sales guarantees, taxes, litigation and claims, pensions and other risks and charges. Pequeno (2014) found that legal provisions were the most recognised type of provision in the consumer goods and telecommunications sector, while "other provisions" were the main type of provision in most other sectors. In that study, Marques (2015) found that in both the 2005 and 2013 samples, the most publicised provisions were provisions for legal proceedings in progress, other risks and charges, and in third place customer guarantees. In the study of the largest Brazilian companies, Porttela (2015) found that provisions for employees were the most recognised.

Contrary to what happens with provisions, contingent liabilities do not affect the financial result, as they are not recognised in the balance sheet or income statement, but are only disclosed in the notes to the financial statements. In Oliveira's study (2007), third party guarantees and sureties, litigation and claims and pensions were the most commonly disclosed contingent liabilities. Albuquerque & Faria (2009), in their study, found that contingencies with employees and tax contingencies were the most disclosed. Porttela (2015), also analysing Brazilian companies in 2013, found that the most disclosed contingent liabilities were tax contingencies. So for Portuguese listed companies, the following question was posed:

*Q2 a) What types of provisions and contingent liabilities are disclosed by Portuguese listed companies?*

Oliveira (2007) tried to understand compliance with the requirements of IAS 37 through a survey of the largest Portuguese companies. Lopes (2014), Marques (2015), Acar & Ozkan (2017) and Basílio (2020) built a disclosure index based on compliance with the various requirements of IAS 37, to check whether or not the standard was complied with. Of the studies identified is notable that they are primarily concerned with whether IAS 37 is complied with and whether there is a relationship between certain variables. Just few studies were identified that quantify the information provided in annual reports, which might indicate the degree of importance that each company attaches to this subject, so we asked the following question:

*Q2 b) Do listed companies fulfil the disclosure requirements of IAS 37 and in what detail?*

Auditing plays a role in the credibility and reliability of information. It is the auditor's responsibility to obtain audit evidence on accounting estimates, as well as the respective disclosure of financial information in accordance with the respective International Standards on Auditing (ISA). As Albuquerque & Faria (2009) say, contingencies are a challenge for accounting, since they can be used as an instrument to manipulate the company's assets. Therefore, given the materiality and risks associated with provisions and contingent liabilities, it is also up to the auditor to carefully assess these matters.

One of the auditing standards in this area is ISA 540, which deals with the auditor's responsibilities regarding accounting estimates and disclosures related to the audit of financial statements. This standard also includes requirements and guidance on distortions of accounting estimates and indicators of possible lack of impartiality on the part of management. According to paragraph 16 of ISA 540, the auditor's objective is to obtain sufficient appropriate audit evidence about whether: a) the accounting estimates, including fair value estimates, in the financial statements, both recognised and disclosed, are reasonable; and b) the related disclosures in the financial statements are adequate in the context of the applicable financial reporting framework.

After his conferences and conclusions, the auditor draws up his audit report, Legal Certification of Accounts (CLA) with his opinion, mentioning the aspects considered relevant. As far as provisions and contingent liabilities are concerned, we didn't find any studies analysing the CLC on these matters, so we considered the following question

*Q2 c) Does the Legal Certification of Accounts (CLA) mention provisions and contingent liabilities?*

Given the importance and credibility of the disclosure of information, some studies, such as Lopes (2014), Leal et al. (2018), and Basílio (2020) analyse whether the recognition and disclosure of provisions is associated with the fact that they are audited by a Big4.

We found that there are some studies that focus on the audit by a Big4 being associated with the level of compliance. Pequeno (2014) states that international auditing companies, the Big4, are more demanding of their clients, leading them to disclose more,

since credibility and neutrality are the basis of reputation. Therefore, in order to assess this statement, the following question was asked:

*Q2 d) Are companies with a high level of compliance associated with being audited by a Big4?*

## 4 Methodology

This chapter presents the methodology used to answer the research questions, identifying the sample, data collection and processing.

### 4.1 Sample and data collection

This study uses essentially quantitative methodologies, through descriptive analysis and statistical tests using SPSS and content analysis. The SABI database was used to select the sample of all Portuguese companies (Question 1). SABI is a database operated by Bureau Van Dijk that provides information on companies in Spain and Portugal. It can be used to search for individual companies, companies with specific profiles or to analyse data. In this database, Portuguese companies that filed financial statements in 2021 were filtered, representing a total of 411,053 companies (collection date 03/11/2022). Given the data export limit, it was possible to access data from 373,980 companies extracted from SABI, representing 90.98% of the universe of Portuguese companies with accounts available in 2021.

To define the sample for question 1 (Q1), all available companies were analysed. As can be seen in Table 2, of the total sample (373,980 companies), only 6,664 companies recognise provisions in the balance sheet. It can be said that the number of companies that recognise provisions is small, only 1.8% of Portuguese companies. Information on the sector of activity, size, tax implications and auditing was taken from the SABI database.

**Table 2.** Frequency table - Recognition of provisions in the balance sheet

		Frequency	Percentage	Valid percentage	Cumulative percentage
Valid	Does not recognise	367316	98,2	98,2	98,2
	Recognise	6664	1,8	1,8	100,0
	<b>Total</b>	373980	100,0	100,0	

With regard to Question 2, the universe was centred on companies listed in Portugal (and not all companies as in Question 1). The sample was selected using the euronext website (<https://live.euronext.com/>). On the date of data collection (17/11/2022), a total of 56 companies were listed on Euronext Lisbon. Of these, six companies were excluded because they didn't have their head office and effective management in Portugal; one company because it joined in 2022; one company because its ordinary shares were excluded from this market on 17/06/2019; three companies because they didn't submit accounts in 2021; and

two companies because they were entities supervised by the Bank of Portugal. The final sample thus consists of 43 companies. Their Annual Report was obtained from each company's website or from the website of the Portuguese Securities Market Commission (CMVM). The reports collected correspond to the consolidated accounts, with the exception of seven companies, which only presented individual accounts. The reports obtained relate to the calendar year 2021, with the exception of four football companies whose reports relate to the period 2020/2021.

Data was collected using the technique of content analysis of the annual reports. Several studies have employed this technique, which is the most in-depth technique favoured by leading authors such as Moura et al. (2021). The analyses were completed with statistical tests.

To define the sample for Question 2 (Q2), all the Annual Reports were analysed. The sample of 43 companies listed on the Euronext Lisbon stock exchange showed that most of them recognise provisions in their balance sheets and income statements. We concluded that 37 companies recognise provisions in their balance sheets, i.e. 86.05%. However, in the income statement we found fewer companies recognising provisions, with only 34 companies, or 79.07%, which means that in 2021, 3 of the companies in the sample did not recognise provisions. We found that 13.95% (6 out of 43 companies) do not recognise any value in their balance sheet, and 20.93% (9 out of 43) in their income statement.

When analysing the Annual Reports, in order to gather the information needed for the results of question 2, the information was categorised and a working tool was drawn up. This working tool was a checklist based on the recognition and disclosure requirements of IAS 37, various studies analysed (Marques, 2015; Basilio, 2020) and questions on auditing were added. A set of rules was defined for filling it in, based on the information disclosed in the Balance Sheet, Income Statement and Notes. These are the 3 financial statements where you can find information on provisions and contingent liabilities. The checklist and set of rules can be obtained from the authors. In addition to the content analysis technique, a descriptive analysis was also carried out using SPSS.

## 4.2 Data analysis

Various techniques were used to analyse the data, such as descriptive statistics, using frequency tables with SPSS and Excel, with data from SABI and content analysis of the Reports and Accounts. According to Santos (2018), in order to be able to analyse large sets of data, it is necessary for them to be previously organised in frequency tables, thus simplifying the exploration and description of the data and detecting more relevant characteristics. Cross-reference tables were also used for the variables under study and Chi-square tests of independence were carried out. This test makes it possible to assess whether the variables are independent, i.e. whether one depends on the other. In order to quantify the degree of association between two variables, the contingency coefficient was calculated, following the criteria used by Lopes (2016), cited by Veiga et al. (2019). To check whether there is a correlation between the amount recognised in provisions and total assets (Q1b3), Spearman's linear correlation test was used. In order to quantify the degree of correlation

between the two quantitative variables, the correlation coefficient was calculated, following the interpretation of Lopes (2016), cited by Veiga et al. (2019). Table 3 summarises the different data processing techniques used in question 1.

**Table 3.** Data processing techniques (Q1)

		<b>Independent Variable</b>	<b>Measuring the Variable</b>	<b>Statistical test to be applied</b>
<b>Q1 a</b>	Which sectors of activity recognise the most provisions?	-	-	- Descriptive analysis
<b>Q1 b1</b>	What type of company recognises provisions the most?	-	-	- Descriptive analysis
<b>Q1 b2</b>	Do companies with more than 500 employees tend to recognise provisions?	Independent Variable: No. of Employees	Assumes a value of 1 if you have more than 500 employees, 0 otherwise	- Chi-squared test of independence - Contingency Coefficient
<b>Q1 b3</b>	Is there a correlation between the amount recognised in provisions in the balance sheet and total assets?	Total Assets	Natural logarithm of the amount of total assets	- Spearman correlation test - Spearman's Correlation Coefficient
<b>Q1 c</b>	Is the recognition of provisions linked to the fact that there are published legal incidents?	Published Judicial Incidents	Assumes value 1 if there are published court cases, 0 otherwise	- Chi-squared test of independence - Contingency Coefficient
<b>Q1 d</b>	Is the recognition of provisions linked to the fact that the company is audited?	Auditing	Assumes value 1 if audited, 0 otherwise	- Chi-squared test of independence Contingency Coefficient

As with question 1, to answer question 2, which aims to assess the information disclosed and the degree of compliance with the accounting standards (IAS 37), we used content analysis, descriptive analysis, frequency tables, statistical tests and a disclosure index. In this study, in order to calculate the disclosure index (DI) and compliance with the standard, we added up all the answers on the Checklist, assigning 1 - "discloses" or 0 - "does not disclose". This index can vary between  $0 \leq$  and  $\leq 6$ , where 6, fully complies with the requirements to disclose provisions, and "0" does not comply with the requirements to disclose provisions at all.

With regard to contingent liabilities, in order to analyse the requirements of the standard we also took into account the checklist we constructed, where we used the same criteria as for the disclosure of provisions, (1 - "discloses"), (0 - "does not disclose"), so their disclosure index can vary between  $0 <$  and  $< 2$ .

$$\text{Índice} = \left\{ \sum_{i=1}^n di \right\}$$

Index= Disclosure Index/ Disclosure Level

Di = index of item i which assumes 1 if the information is disclosed and 0 if it is not.

To check whether a high level of disclosure is associated with being audited by a Big4, we used the cross-reference table for the variables under study and carried out a Chi-square test of independence. When the Chi-square test was not applicable, we used Fisher's test. With these tests we want to check whether or not the variables are independent, i.e. whether one variable depends on the other. As with question 1, in order to quantify the degree of association between the two variables we also calculated the contingency coefficient. A summary of the data processing techniques used for Q2 is shown in Table 4.

**Table 4.** Data processing techniques (Q2)

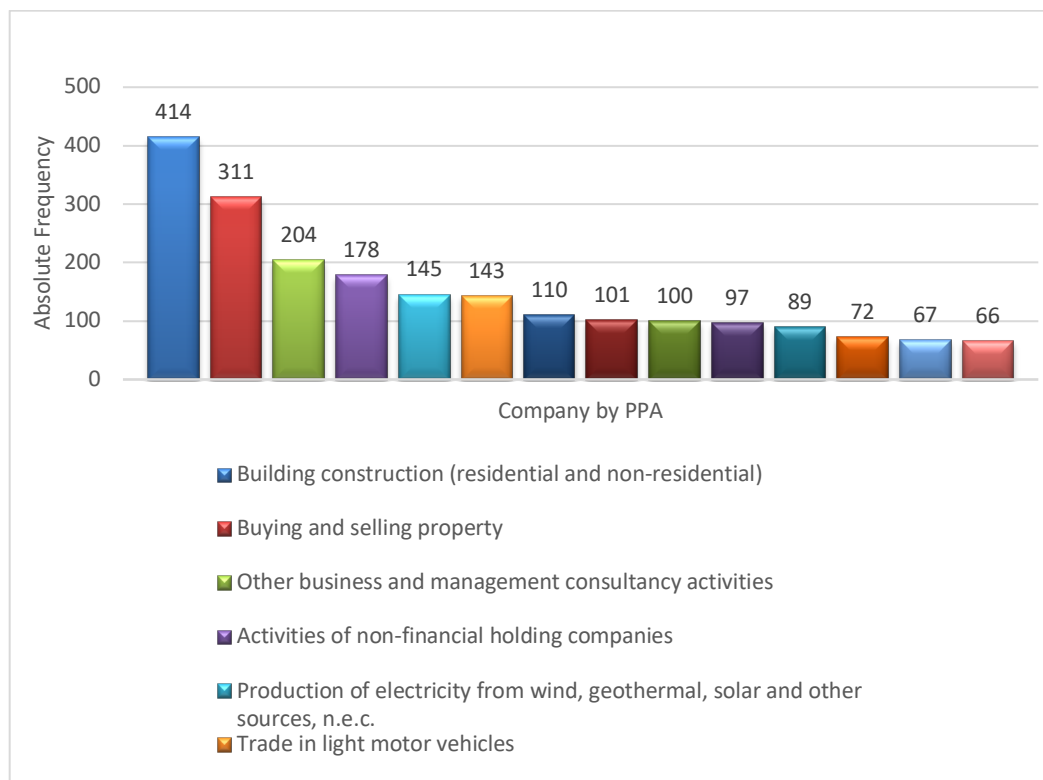
		Independent Variable	Measuring the Variable	Statistical test to be applied
Q2 a)	What kind of provisions and contingent liabilities are disclosed by Portuguese listed companies?	-	-	- Descriptive analysis
Q2 b)	Do listed companies fulfil the disclosure requirements of IAS 37 and in what detail?	-	-	- Descriptive analysis
Q2 c)	Does the Legal Certification of Accounts (CLA) mention provisions and contingent liabilities?	-	-	- Descriptive analysis
Q2 d)	Companies with a high level of compliance are associated with being audited by a BIG4.	Big4	Assumes a value of 1 if the company certifying the accounts is one of the BIG4 and 0 otherwise.	- Fisher's independence test - Contingency Coefficient

## 5 Presentation and discussion of results

### 5.1 Q1 - Determinants of the recognition of provisions

In order to identify the determinants of the recognition of provisions by Portuguese companies, the following items related to the research questions were analysed: Q1 a) Sector of activity; Q1 b) Size: Q1 b1) Type of company; Q1 b2) Number of employees; Q1 b3) Total assets; Q1c) Influence of legal incidents; Q1d) Company audited.

Regarding the sector of activity, in the sample of 6,664 companies that recognised provisions in 2021, we found the presence of 611 different main Economic Activity Codes (CAE-Rev.3). Figure 1 shows the 14 CAE-Rev.3 with the highest number of companies (TOP 14). Given the large number of different sectors, the remaining sectors were excluded because they had a sample size of less than 1%.



**Figure 1.** Recognition of provisions by sector of activity

It turns out that the largest number of companies disclosing provisions belongs to the building construction sector (414 companies), followed by the real estate purchase and sale sector (311 companies) and other business and management consultancy activities (with 241 companies). In the study by Lopes (2014), which focuses on listed companies, the construction and buildings sector occupied third place among the sectors disclosing the most provisions in 2012.

Regarding the size of companies that recognise provisions, it was analysed from three perspectives/with three indicators: size according to Decree-Law 98/2015 (type of

company); size according to the number of employees, size according to total assets. Taking into account the size of micro, small, medium and large entities provided for in Decree-Law98/2015 of 2nd June, we found that large entities account for 0.4% of our sample. These represent recognition of more than 50% (722 companies out of 1310, 55.1%) compared to those that do not recognise provisions in their balance sheet and income statement. The other sizes recognise less than 50%, and in the case of micro companies, only 0.8% recognise provisions. Table 5 shows more details.

**Table 5.** Size of companies that disclose provisions by type of company

Dimension	Big	Counting	Provisions in the Balance Sheet		Total
			Does not recognise	Recognise	
		Counting	588	722	1310
		% in Dimension	44,9%	55,1%	100,0%
		% of Total	0,2%	0,2%	0,4%
	Average	Counting	4364	1241	5605
		% in Dimension	77,9%	22,1%	100,0%
		% of Total	1,2%	0,3%	1,5%
	Micro	Counting	318272	2547	320819
		% in Dimension	99,2%	0,8%	100,0%
		% of Total	85,1%	0,7%	85,8%
	Small	Counting	44092	2154	46246
		% in Dimension	95,3%	4,7%	100,0%
		% of Total	11,8%	0,6%	12,4%
	Total	Counting	367316	6664	373980
		% in Dimension	98,2%	1,8%	100,0%
		% of Total	98,2%	1,8%	100,0%

We can therefore conclude that large companies tend to disclosure more provisions than micro, small and medium-sized companies.

**Table 6.** Companies by size that recognise provisions on the balance sheet

Dimension	Average	Median	Minimum	Maximum	Standard Deviation
Big	5622481,71	547391,37	2	503743475	29893405,948
Media	902691,17	100000,00	5	171342109	6004729,724
Small	384054,65	37505,93	15	136328214	3815231,027
Micro	681945,27	15875,00	6	259667884	7385942,102
Total	1162040,80	41287,60	2	503743475	11463355,581

If we were to analyse only the Table 5 we might have been misled to see that 2547 micro entities recognise provisions, while only 722 large companies do so. But it's important to compare this with those that don't recognise provisions, so that we can see that it's the larger companies that tend to recognise provisions and also recognise higher average amounts of provisions. Analysing Table 5 can be complemented with Table 6.

We also found that being a micro-enterprise, in accordance with Decree-Law 98/2015, does not imply having lower provisions. As we can see, the average and maximum values presented by micro-enterprises exceed those presented by small organisations.

Regarding to size, according to the number of employees, the sample was separated into companies with less than or more than 500 employees (in statistical terms we now have 2 nominal variables). Since the number of employees is a determining factor in the size of the company, and since accidents at work and occupational diseases are one of the classes of provisions provided for by the SNC, we separated the sample into companies with more than 500 employees and those with less than 500 employees (in statistical terms we now have 2 nominal variables). We found 466 companies with more than 500 employees, of which 60.50% recognise provisions in their financial statements. Companies with fewer than 500 employees account for 373,514 companies, of which only 1.7% recognise provisions. Table 7 shows the cross-reference table, where we can see the number of companies in each of the categories.

**Table 7** Cross-reference table, number of workers

		< 500 workers		≥ 500 workers	
		Frequency	Percentage	Frequency	Percentage
<b>Valid</b>	<b>Does not recognise</b>	367132	98,30%	184	35,50%
	<b>Recognise</b>	6382	1,70%	282	60,50%
	<b>Total</b>	373514	100%	466	100%

In order to assess the strength of the relationship between the two variables, recognition of provisions in companies with less than or more than 500 employees, we calculated a measure of association between the variables and, in parallel, we also carried out a hypothesis test to confirm whether the variables are independent or associated. We carried out the chi-squared test of independence and obtained a p-value of 0. We concluded that companies with more than 500 employees tend to recognise provisions, so the size of the company is associated with the recognition of provisions. To quantify this association, we calculated the contingency coefficient (which varies between 0 and 1). This was estimated to be 0.16, so we concluded that the association is very weak.

To assess the size of the company as a function of total assets, we carried out Spearman's linear correlation test and calculated Spearman's correlation coefficient (since the data does not come from a normal population). After carrying out the correlation test, we obtained a p-value of 0, concluding that the amounts recognised in provisions in the balance sheet are correlated with Total Assets. Spearman's correlation coefficient was estimated at 0.59, indicating a moderate positive linear correlation (the maximum value is

known to be 1), i.e. there is a tendency for the larger the company's total assets, the higher the amounts recognised in provisions on the balance sheet.

To conclude whether the recognition of provisions is associated with the fact that there are published court cases, we built a cross-reference table (table 8) and carried out a Chi-square test of independence. We also estimated the contingency coefficient and checked whether the variables are independent or whether there is an association between them, using the Chi-square test of independence.

**Table 8.** Cross-tabulation - Legal incidents Vs Recognition of provisions in the balance sheet

		Provisions in the Balance Sheet			
		Does not recognise	Recognise	Total	
<b>Incidences</b>	<b>No</b>	<b>Counting</b>	343059	4794	347853
		<b>% of Total</b>	91,7%	1,3%	93,0%
<b>Judicial</b>	<b>Published</b>	<b>Counting</b>	24257	1870	26127
		<b>% of Total</b>	6,5%	0,5%	7,0%
<b>Total</b>		<b>Counting</b>	367316	6664	373980
		<b>% of Total</b>	98,2%	1,8%	100,0%

Analysing the Chi-square test of independence, a p-value of 0 was obtained, which at a significance level of 5% leads to the conclusion that published legal cases are associated with the recognition of provisions in the financial statements. To quantify this association, we calculated the contingency coefficient, which was estimated at 0.11, concluding that although there is an association between the variables, it is a very weak one. The fact that our sample is too large and the number of companies that recognise provisions is so small does not allow us to arrive at the expected result that one directly influences the other, not least because in this sample we do not have information on what type of provisions are recognised. We found that of the 373,980 companies, only 0.5% recognise provisions at the same time as they disclose legal incidents. Of the 26,127 companies with published legal incidents, only 1,870 recognise provisions.

In order to conclude whether the recognition of provisions is linked to the fact that the company is audited, the companies in the sample that were audited were identified. Only 5.5 per cent of the companies in the sample are audited. We found that of the 6,664 companies that recognise provisions, 3,001 are audited, i.e. 45%. However, of the 20,487 companies audited (out of the total sample), 17,486 did not recognise provisions, i.e. 85.4%.

The following table shows cross-reference table 9, where we can see the number of companies in each of the groups (audited versus non-audited).

**Table 9.** Cross-reference table, audit and provisions

		Provisions in the Balance Sheet		Total	
		Does not recognise	Recognise		
Auditing	Audited	Counting	17486	3001	20487
		% in Audit	85,4%	14,6%	100,0%
		% in Recognises Provisions in the	4,8%	45,0%	5,5%
		% of Total	4,7%	0,8%	5,5%
	Unaudited	Counting	349830	3663	353493
		% in Audit	99,0%	1,0%	100,0%
		% in Recognises Provisions in the	95,2%	55,0%	94,5%
		% of Total	93,5%	1,0%	94,5%
Total	Counting	367316	6664	373980	
	% in Audit	98,2%	1,8%	100,0%	
	% in Recognises Provisions in the	100,0%	100,0%	100,0%	
	% of Total	98,2%	1,8%	100,0%	

In order to check whether provisions tend to be recognised by audited companies, we carried out the Chi-square test of independence (since we have nominal variables) and obtained a p-value of 0, so we concluded that audited companies are associated with the recognition of provisions. To quantify this association, we calculated the contingency coefficient (which varies between 0 and 1). This was estimated at 0.23, so we concluded that the association is weakly positive. Analysis of the cross-reference table shows that 99% of non-audited companies do not recognise provisions and only 1% recognise provisions. Of the audited companies, 85% recognise provisions and 15% do not. From this analysis, and from the analysis of the contingency coefficient, we can infer that there is a tendency, albeit not a very strong one, for audited companies to recognise provisions.

## 5.2 Q2 - Compliance with accounting standards

After characterising the Portuguese companies that disclose provisions and identifying the determinants of the recognition of provisions, we will now focus our analysis only on Portuguese listed companies and understand in greater detail the type of provisions and contingent liabilities recognised and disclosed, concluding on the compliance with the accounting standards (IAS 37).

As mentioned in the methodology section, of the 43 companies in the sample, 37 disclose provisions. In terms of the frequency of provisioned amounts in the financial statements, we present the 10th table.

**Table 10.** Frequency table of provisioned amounts

	Average	Median	Standard Deviation	Minimum	Maximum
Balance Sheet	64 882 905	3 239 726	243 578 255	15 190	1 209 000 000
Income Statement	6 725 727	0	33 547 384	-12 595 015	212 000 000

*Note: We exclude "0" from the minimum balance sheet value*

On the balance sheet the amounts recognised as provisions are between [15,190€, 1,209,000,000€]. In the income statement the amounts are [-12,595,015 euros, 212,000,000 euros]. We would emphasise that the negative figures in the income statement relate to reversals of provisions, i.e. income. The average amounts of provisions recognised in the balance sheet and income statement are €64,882,905 and €6,725,727, respectively.

In order to assess the information disclosed by listed companies, the classes of provisions and contingent liabilities were analysed. The most commonly disclosed provisions are for ongoing legal proceedings, where 28 companies, or 65.11%, recognise provisions for legal proceedings, followed by "other provisions", recognised by 23 companies. We would point out that in some situations "other provisions" were specifically mentioned. In cases where provisions other than those provided for in the plan were mentioned, they were considered in this class, such as the provisions for pensions mentioned in the Estoril company's annual report and accounts, and staff costs, mentioned in the Cofina company's annual report and accounts. Like Oliveira (2007) and Marques (2015), provisions for legal proceedings were the most disclosed. Also, in the study by Pequeno (2014), provisions for legal proceedings (litigation) were the most recognised in the consumer goods and telecommunications sector, while "other provisions" were more recognised in the other sectors of activity. We didn't find any companies recognising provisions for accidents at work and occupational diseases.

The most disclosed contingent liabilities were "other contingent liabilities " (20 companies). These were strongly influenced by guarantees given to third parties, a situation that corroborates the study by Oliveira (2007) and Pequeno (2014). Compared to the study by Albuquerque & Faria (2009), the second and third positions are close, which means that legal incidents and taxes have similar values, but while in our study legal incidents occupy the second position in the study by Albuquerque & Faria (2009) they occupy the third. Provisions for taxes are in third place (14 companies), while the other classes are of little importance.

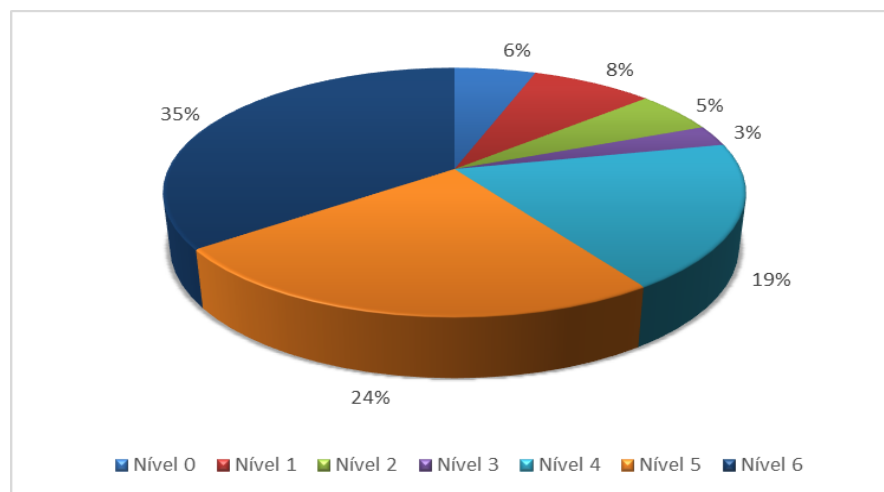
With regard to compliance with the requirements of IAS 37, we analysed the notes in the notes to the financial statements using the checklist we created, obtaining the results shown in Table 11.

**Table 11.** Disclosure of provisions - Compliance with §84 and §85 of IAS 37

<b>For each class of provisions the company discloses:</b>	<b>No. of companies</b>	<b>%</b>
The carrying amount at the beginning and end of the period?	31	83,78%
Additional provisions recognised in the period, including increases in existing provisions?	29	78,38%
The amounts used (i.e. incurred and debited to the provision) during the period?	28	75,68%
Unused amounts reversed during the period?	29	78,38%
A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.	28	75,68%
An indication of the uncertainties about the amount or timing of these outflows. Disclosure of the key assumptions made regarding future events, as indicated in paragraph 48.	16	43,24%

We found that of the 37 companies that disclose provisions in their notes to the financial statements, not all comply with the standard. It is important to remember that the standard mentions that recognition should be by class of provision and not by its totality, thus distinguishing between each one. One of the requirements of §85, in parallel with §48, is the disclosure of the main assumptions that companies take into account when recognising provisions, indicating the uncertainties and future events that could affect the amount needed to settle the obligation. We found that this point is only considered by 43 per cent of listed companies. According to the study by Pequeno (2014), with a few exceptions, no information was obtained on the assumptions used to make the estimates.

In order to distinguish between companies that comply and do not comply with the standard, we obtained a compliance index by adding up each answer (1 - "discloses"), thus obtaining a level of  $0 \leq$  and  $\leq 6$ , where 6, fully complies with the requirements to disclose provisions and 0 does not comply (Figure 2).



**Figure 2.** Compliance index - Listed companies that disclose provisions

Regarding to the disclosure of provisions, we found that of the 37 companies that recognise provisions in their financial statements, only 35%, i.e. only 13 companies, fully comply with the requirements of the standard with regard to the disclosure of provisions. We found that 6%, represented by a sample of 2 companies, do not fulfil any of the requirements, either by not mentioning any note in their financial statements, or, although they have the figures at the beginning and end of each period, they do not distinguish by class of provisions.

About contingent liabilities, we found that 28 companies, or 65.12%, disclose contingent liabilities, while 15 companies, or 34.88%, do not disclose any information on contingent liabilities. Of the 28 companies that disclose, we found that all of them complied with a) and b) of § 86 of the IAS, i.e. all those that mention the estimate of their financial effect also mention an indication of the uncertainties that relate to the amount or timing of the outflow. Of the 15 that do not disclose contingent liabilities, only 2 companies, i.e. approximately 13 per cent of those that do not, comply with § 91, with a declaration of non-disclosure of contingent liabilities.

We assume that the legislator has taken this paragraph into account because of its relevance, so that preparers of financial statements don't use it as an excuse for having overlooked it. The fact that there are no provisions does not invalidate the possibility of contingent liabilities.

With regard to compliance with the disclosure requirements of IAS 37, and in accordance with the study by Oliveira (2007) and Lopes (2014), we can conclude that Portuguese companies, when recognising provisions and disclosing their contingent liabilities, mostly do not comply with the recognition criteria defined in the standard.

Regarding the detail devoted to the disclosure of provisions and contingent liabilities by Portuguese companies, we found that most of them disclose in a summarised way, presenting only the provisioned amounts quantitatively (Table 12). Only 27.91%, or 12 companies in the sample, disclose quantitatively, qualitatively and in detail for each class of provisions, using more than one page in their reports.

**Table 12.** Relevance in the disclosure of provisions and contingent liabilities

		Provisions		Contigent liabilities	
		Companies	%	Companies	%
0	Does not disclose	7	16,28%	13	30,23%
1	Disclose in summary form	17	39,53%	13	30,23%
2	Discloses in detail	6	13,95%	7	16,28%
3	Discloses in depth	12	27,91%	8	18,60%
4	Declaration of non-disclosure	1	2,33%	2	4,65%

There are 7 companies that make no disclosure at all, 6 of which don't disclose because they don't recognise provisions in their financial statements. With regard to the accuracy of the disclosure of contingent liabilities, we found that there are 13 companies that do not disclose, and 13 that disclose in a summarised way (using up to one page of their annual reports). In depth, only 8 companies use more than two pages of their annual report to disclose their contingent liabilities, and this is due to the extensive list of guarantees to third parties, where they specify the entities and the corresponding amounts.

Thus, we can conclude that most companies disclose provisions and contingent liabilities in a summarised way, i.e. on up to one page of their annual report.

With regard to references by the auditors in the audit report (CLC), by analysing the reports we concluded that the CLCs do not mention reservations or emphases on the subject of provisions and contingent liabilities. We found mention of provisions in 8 CLCs, i.e. 21.6% of the companies that recognise provisions in their financial statements mention this topic in their CLC. Regarding contingent liabilities, we found only 2 CLCs, i.e. only 5.4 per cent. We therefore conclude that it is rare for CLCs to mention the subject, but those that do, consider it to be a relevant matter and that there is a high degree of judgement involved, as well as a level of uncertainty, mentioning the processes used to confirm the values presented.

To check whether companies with a higher level of compliance tend to be audited by a Big4 company, we first built a cross-reference table for the variables under study and carried out a Chi-squared test of independence. We also estimated the contingency coefficient. Table 13 shows the cross-reference table, where we can see the number of companies in each of the categories.

**Table 13.** Cross-tabulation of compliance index 6 by Big4

		Audited by a BIG4			
		No	Yes	Total	
<b>ind_6</b>	<b>Fully compliant</b>	<b>Count</b>	4	9	13
	<b>§84 e §85 IAS</b>	<b>% ind_6</b>	30,8%	69,2%	100,0%
		<b>% BIG4</b>	25,0%	33,3%	30,2%
		<b>% Total</b>	9,3%	20,9%	30,2%
<b>No Fully compliant</b>	<b>Count</b>	12	18	30	

<b>§84 e §85 IAS</b>	<b>% ind_6</b>	40,0%	60,0%	100,0%
	<b>% BIG4</b>	75,0%	66,7%	69,8%
	<b>% Total</b>	27,9%	41,9%	69,8%
<b>Total</b>	<b>Count</b>	16	27	43
	<b>% ind_6</b>	37,2%	62,8%	100,0%
	<b>% BIG4</b>	100,0%	100,0%	100,0%
	<b>% Total</b>	37,2%	62,8%	100,0%

As 25.0% of the data in the cross-reference table expected a count of less than 5, we used Fisher's exact test to test the independence between the variables, as the conditions for applying the chi-square test were not met. Fisher's test yielded a p-value of 0.74, so it can be concluded that compliance level 6, i.e. companies that fully comply with the standard, is not associated with being or not being audited by a Big4. This situation is not unanimous with other studies, and slightly contradicts the study by Lopes (2014), Leal et al. (2018) and Basílio (2020) who, although they found a positive association, it was not significant, between recognising provisions and being audited by a Big4. The study by Pequeno (2014) found in quantitative terms that being audited by a Big4 company recognises more provisions.

Analysing the figures in the cross-reference table, we can see that, in line with previous studies, listed companies have a preference for multinational auditing companies, the Big4. In the sample of 43 companies, 62.8 per cent are audited by a Big4, while only 33.3 per cent comply with the standard. We found that of the 13 companies that comply, 69.2% of the total (9 out of 13) are audited by a Big4, but of the 30 that don't comply, 18 companies are also audited by a Big4.

## 6 Conclusion

This article analyses the determinants of the recognition of provisions and the information disclosed on provisions and contingent liabilities, concluding on the compliance with accounting standard IAS 37. It focuses on all Portuguese companies that filed financial statements in 2021. Objective 1 focuses on the individual accounts of Portuguese companies, collecting data from the Sabi database platform. Four questions were formulated to assess the determinants taking into account the Sector of activity, Size (Type of company, Number of employees and Total assets), Influence of judicial incidents and Company audited. The second objective focused on Portuguese listed companies, using their annual reports and accounts, and using a checklist to formulate four questions to characterise the information (Classes of provisions and contingent liabilities) and compliance (compliance with IAS 37, detail, audit).

In the results obtained for the first objective, we found that only 1.8% of Portuguese companies recognise provisions (6,664 out of 373,980 companies), and the sector that most recognises provisions in its balance sheet is the building construction sector, the purchase and sale of real estate, and other business and management consultancy activities. Although more micro-enterprises recognise provisions, this is due to the fact that there are also more micro-enterprises. However, large companies tend to recognise more provisions. Using the

SPSS software, the test of independence between variables showed that there is a very weak and weak association between recognising provisions and the variables published court cases, the company having more than 500 employees and the company being audited, i.e. although positive, it is not relevant.

In the results obtained for the second objective, we found that of the sample of 43 Portuguese listed companies, 37 companies recognise provisions, or 86%. Listed companies recognise more provisions than contingent liabilities, and in both cases the three most disclosed classes are taxes, legal proceedings and other provisions. In the case of contingent liabilities, guarantees to third parties have the greatest weight in the class of other contingent liabilities.

One of the most important points in this study has to do with compliance with the disclosure requirements of IAS 37 by listed companies. With regard to the disclosure of provisions, we concluded that of the companies that recognise provisions, only 35% comply with the standard. As for compliance with the requirements, we concluded that the majority recognise the carrying amount at the beginning and end of the period for each class of provision, as well as additional provisions. The least disclosed requirement is the assumptions that companies take into account when calculating the estimate to be recognised as provisions.

Only 28 companies disclose contingent liabilities, all of which fulfil the disclosure requirements for contingent liabilities. Of the 15 companies that do not disclose, only 2 present a statement for non-disclosure, while 13 should disclose and make no mention of it.

In relation to CLC, we concluded that they only mention provisions and contingent liabilities when they consider that the amounts presented are materially relevant and there is a high degree of judgement involved. We also found that in the reports and accounts of listed companies, CLCs make no reservations or emphases on these matters.

Using SPSS software, we concluded that there is no association between full compliance with the standard and being audited by a Big4 company.

Despite the study's important contributions and the novelty, it brings, it does present some limitations, most notably the data collection technique used to analyse listed companies. This analysis was carried out using content analysis, which is a technique that can be somewhat subjective, although care and rules were taken in the applicable methodologies.

As a possibility for future research on the subject under analysis, it is suggested that the study focus only on one sector of activity, trying to understand the characteristics that differentiate companies that recognise and do not recognise provisions, also using interviews directly with the preparers of the financial statements. Since the sample is based on a single country, it is suggested that a cross-country study be carried out to better generalise the results and provide useful insights by comparing them with international practices."

Finally, we also suggest analysing the effect that corporate governance mechanisms can have on the recognition and measurement of provisions and the disclosure of contingent liabilities.

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## Appendix

Appendix 1 - Information to be disclosed in the Annex regarding provisions and contingent liabilities

	INFORMATION TO BE DISCLOSED IN THE NOTES
<b>Provisions</b>	<ul style="list-style-type: none"> <li>a) Carrying amount (book value) at the beginning and end of the period;</li> <li>b) Provisions made in the period, including increases in existing provisions;</li> <li>c) Utilisation of provisions in the period;</li> <li>d) Reversals of provisions made during the period;</li> <li>e) Increase in provisions, during the period, in the discounted amount arising from the passage of time and the effect of any changes in the discount rate.</li> </ul>
<b>Contingent Liabilities</b>	<ul style="list-style-type: none"> <li>a) A brief description of the nature of the contingent liability;</li> <li>b) An estimate of its financial effect;</li> <li>c) An indication of the uncertainties that relate to the amount or timing of any outflow of economic benefits; and</li> <li>d) The possibility of any reimbursement.</li> </ul>

Source: Prepared on the basis of paragraphs 81 to 86 of NCRF 21 and paragraphs 84 to 92 of IAS 37