

Ex 1

	Restoration costs	Probability	
Scenario A	200,000	55%	
Scenario B	275,000	45%	
Total			200,000 as most likely outcome (FV)
			99,435 PV

Adjustment for uncertainty	5%
Risk-free rate	10%
Discount factor	15%

Ex 2

Total number of goods sold 1000 units

	Probability	Repair costs (Number of return)	Weighted outcome
No defect	75%	0	0
Minor defect	20%	100	20,000
Major defect	5%	400	20,000
Total warranty provision			40,000

Ex 3

(A)	Claim	Probability	
Scenario A	2,000,000	30%	
Scenario B	300,000	70%	
Total			300,000 as most likely outcome (FV)
			810,000 as weighted average approach
			748,891 PV of provision based on weighted average approach

(B)	Claim	Probability	
Scenario A	100,000	25%	
Scenario B	300,000	50%	
Scenario C	500,000	25%	
Total			300,000 as most likely outcome (FV)

(C)	Claim	Probability	
Scenario A	-	75%	
Scenario B	2,000,000	10%	
Scenario C	300,000	15%	
Total			- it is contingent liability

