

# Loss contingency essay sample



**ASSIGN  
BUSTER**

The scenario that present this case is a company faces litigation. I have to surmise how this liability will be reported as well as the resulting effects on the financial statements in the years presented. I will present some facts of this case, and by these facts I will resolve the primary accounting which in my opinion it could accrued the liability, disclose the liability or count it as immaterial. W Inc and your company have been engaged in litigation over a specific patent infringement matter. In May 2007, W filed a claim.

On December 31 2007, your company determined that a loss in connection to the claim was probable. The company estimated a loss between 15 and \$20 million USD. \$17 million USD was named as the most likely amount of loss. A jury trial took place on September 2009.

On September 24 2009 the jury found in favor of W.

The judgment required your company to pay W \$18.5 million USD. In November 2009, your company filed an appeal.

In December 2010, the court of appeals overturned the jury verdict and the \$18.5 million judgment. On January 6th 2011 W filed a petition for re-hearing.

On February 10, 2011, the appellate judges declined W's petition. On February 28 2011, the company's management determined that the lawsuit was closed.

According to ASC 450-20-20 (Glossary) defines:

Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Gain Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Loss Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses. Probable

The future event or events are likely to occur.

Reasonably Possible

The chance of the future event or events occurring is more than remote but less than likely. Remote

The chance of the future event or events occurring is slight.

Question 1

For the year-end December 31, 2007, financial statements, what amount should M record as a liability? This case shows that management of M determined that a loss would be “probable” and the estimate range would be \$15 million to \$20 million. However, they determined \$17 million would be the “most likely” amount of loss. According to ASC 450-20-25-1, “When <https://assignbuster.com/loss-contingency-essay-sample/>

a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. As indicated in the definition of contingency, the term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses. The Contingencies Topic uses the terms probable, reasonably possible, and remote to identify three areas within that range. An estimated loss from loss contingency shall be accrued by a charge to income if both of the following conditions according to FASB 450-20-25-2 are met: a) Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statement. b) The amount of loss can be reasonably estimated.

FASB 450-20-30-1 states

“ If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount shall be accrued. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range shall be accrued. Even though the minimum amount in the range is not necessarily the amount of loss that will be ultimately determined, it is not likely that the ultimate loss will be less than the minimum amount. “ Based on this information M should record a liability in the amount of \$17 million. This amount is determined with ASC 450-20-30-1. The journal entry would be: Dr. Lawsuit Loss \$17, 000, 000

Cr. Lawsuit Liability \$17, 000, 000

<https://assignbuster.com/loss-contingency-essay-sample/>

## Question 2

For the year-end December 31, 2009, financial statements, should M adjust its liability? If so, what amount should be recorded; and should the amount of the adjustment be considered a 2009 event or a prior period adjustment? For the year ended December 31, 2009, financial statement M should adjust its liability to \$18.5 million FASB 450-20-50-3 through 450-20-50-8 required disclosure of additional exposure to loss if there is a reasonable possibility that there are additional amount to be paid. The amount of the adjustment would be considered 2009 an event period adjustment. FASB 450-20-50

50-3 Disclosure of the contingency shall be made if there is at least a reasonable possibility that a loss or an additional loss may have been incurred and either of the following conditions exists: a. An accrual is not made for a loss contingency because any of the conditions in paragraph 450-20-25-2 are not met. b. An exposure to loss exists in excess of the amount accrued pursuant to the provisions of paragraph 450-20-30-1. 50-4 The disclosure in the preceding paragraph shall include both of the following: a. The nature of the contingency

b. An estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. 50-5 Disclosure is preferable to accrual when a reasonable estimate of loss cannot be made. For example, disclosure shall be made of any loss contingency that meets the condition in paragraph 450-20-25-2(a) but that is not accrued because the amount of loss cannot be reasonably estimated (the condition in paragraph 450-20-25-2[b]).

Disclosure also shall be made of some loss contingencies that do not meet the condition in paragraph 450-20-25-2(a)—namely, those contingencies for

which there is a reasonable possibility that a loss may have been incurred even though information may not indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.

50-6 Disclosure is not required of a loss contingency involving an unasserted claim or assessment if there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless both of the following conditions are met: a. It is considered probable that a claim will be asserted. b. There is a reasonable possibility that the outcome will be unfavorable. 50-7 Disclosure of noninsured or underinsured risks is not required by this Subtopic. However, disclosure in appropriate circumstances is not discouraged. 50-8 No disclosure about general or unspecified business risks is required by this Subtopic, however, Topic 275 requires disclosure of certain business risks.

### Question 3

Should M record the reduction of the previously recorded loss contingency in 2010 (upon the Court of Appeals overturning the verdict of the jury) or 2011 (once the appellate judges declined W's petition for a re-hearing)? M should record the reduction of the previously recorded loss contingency in 2010 (upon the Court of Appeals overturning the verdict of the jury) or 2011 (once the appellate judges declined W's petition for a re-hearing)