To recognize or not to recognize essay

Shakespeare Inc. is a privately held book printing and publishing company with a December 31 year-end. There are five accounting issues that management must consider during the course of proper financial statement presentation. This memo will break down the accounting issues and provide guidance per section.

1. Should the information pertaining to actual claims incurred as of the balance sheet date that became available after the balance sheet date be considered in determining management's best estimate of the medical benefits payable? If so, how does this information impact the amount recognized or disclosed?

Yes, the information pertaining to actual claims incurred as of the balance sheet date must be considered in order to provide management with the best estimate for Medical Benefits Payable. This new information increases Medical Benefits Expense by $0. 75 million and decreases Medical Benefits Payable by $0. 75 million.

The Accounting Standards Codification (ASC) defines subsequent events as " Events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued". In addition, recognized subsequent events are defined as " events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements".

On March 18, 2011, two days before the financial statements are issued, a management review uncovered that Shakespeare had received $0. 75

million for medical care costs incurred before the balance sheet date of December 31, 2010. ASC 855-10-25 dictates that this new information must translate directly into the financial statements, since it pertains to the previous year’s estimated amount. The result of this information is an increase in Medical Benefits Expense by $0. 75 million and a decrease in Medical Benefits Payable of the same amount. Additionally, ASC 855-10-50-1 provides for a disclosure indicating that subsequent events were evaluated through the financial statement date of March 20, 2011.

2. How, if at all, is the modification to the line of credit recognized or disclosed in the financial statements?

Although the modification to the line of credit is a non-recognized subsequent event, Shakespeare should still disclose the modification of their line of credit in the financial statements. Shakespeare should disclose the event because not doing so would cause the financial statements to be misleading.

ASC 855-10-25-3 explains that non-recognized events “ provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued.” ASC 855-10-55-2 also gives an example of entering into “ significant commitments” after the balance sheet date but before the financial statements are issued, which is the case for Shakespeare. Financial statements would not have to be reissued because Shakespeare has not filed with the SEC; they are a privately held company.

3. How, if at all, is the acquisition of Hamlet recognized or disclosed in the financial statements?

Per ASC 805-10-50-1, Shakespeare will have to disclose their acquisition of Hamlet because the acquisition date of March 10, 2011 is before the financial statement issue date of March 20, 2011. This is assuming that the additional credit Shakespeare received was immediately used towards the acquisition, which we believe is a fair assumption. Shakespeare will disclose the following:

1. The name of the acquired company – Hamlet 2. The acquisition date – March 10, 2011 3. The percentage of voting equity – 100% 4. Primary reasons for the business combination and description of how they were able to acquire it. a. Shakespeare acquired by drawing $10 million on their line of credit b. Shakespeare presumably acquired Hamlet to increase their market share in the northeastern part of the United States.

4. What should Shakespeare state in its disclosure about the date through which the financial statements were evaluated for subsequent events? How would this disclosure change if Shakespeare were an SEC filer?

ASC 855-10-25-2 notes that Shakespeare, which is neither an SEC filer nor a conduit bong obligor, shall evaluate subsequent events through the date that the financial statements are available to be issued. Additionally, ASC 855-10-50-1 instructs that Shakespeare must disclose that March 18, 2011 is the date through which subsequent events were evaluated, and that this date is when the financial statements are available to be issued.

If Shakespeare were an SEC filer the disclosure would change slightly. ASC 855-10-25-1A notes that Shakespeare would have to evaluate subsequent events through the date the financial statements are issued, and not just available to be issued.

5. Shakespeare is contemplating adopting IFRSs in the coming year. What guidance in IFRSs addresses events that occur after the balance sheet date but before the financial statements are issued? What does this guidance state about the recognition, measurement, or disclosure of such events? If Shakespeare were to adopt IFRSs, subsequent events would be evaluated through March 20, 2011. According to IAS 10, " Subsequent events are evaluated through the date that the financial statements are authorized for issue. Depending on an entity's corporate governance structure and statutory requirements, authorization may come from management or a board of directors". Shakespeare is planning to issue its financial statements on March 20, 2011; and we understand that as implied authorization for use. IAS 10 also mentions an event that occurs during the subsequent events period that provides additional evidence about conditions existing at the balance sheet date usually results in an adjustment to the financial statements.

If the event occurring after the balance sheet date but before the financial statements are issued relates to conditions that arose after the balance sheet date, the financial statements are not adjusted, but disclosure may be necessary to keep the financial statements from being misleading. IAS 10 does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated, that is, the date that the financial statements are authorized for issuance. As a result, only one date will be disclosed with respect to the evaluation of subsequent events, and an entity could have adjusting subsequent events in reissued financial statements. If financial statements are reissued, the date the reissued statements are authorized for reissuance is disclosed.