

Financial accounting



**ASSIGN
BUSTER**

Financial Accounting 22 - \$500m Lawsuit keeps Foster's hopping: Explain how Foster's should disclose the lawsuit in its financial statement or the notes thereto:

As Foster's has failed in the bid to get the law suit thrown out by the Supreme court, it is essential that the information is presented in a clear and reliable format in the financial statements. It is evident from the present situation of Foster's that there is no current obligation at the reporting date. Hence it is not necessary for Foster's to show that there is a current obligation in its financial statements. However due to the past events, it can be construed that there is a possibility of outflow of resources in the future. In this case, it is necessary for Foster's to keep aside a contingent liability for \$ 500 million and any other legal costs associated with the law suit. This contingent liability has to be explained in detail in the notes section with references to the law suit, failed bid and the estimated trial date.

25 – Santos may face mudflow claims:

a. In the light of the information in the article, do you believe that it is appropriate for Santos to utilize a contingent liability note as the vehicle to provide information about the organization's potential liability in relation to the mudflow claims?

From the information provided in the article, it is evident that there is a big uncertainty associated with future claims and settlements. It is imperative to note that Santos has already agreed to make a payout of \$ US 22.5 million to Minarak in order to protect itself from past, present and future claims. This reduces the possibilities of Santos being held responsible for claims, though the amount paid to Minarak is very low compared to the damage caused by the mudflows. The deal has also reduced the potential risks for a third party

buyer indicating that the company is protected from future claims. As the chances for possible obligations are remote, it is not necessary for Santos to disclose contingent liability.

b. Alternatively, are there any grounds to suggest that Santos should recognize a provision in relation to the mudflow claims?

Santos can set aside a certain sum to provide as a relief measure to the affected people of the villages in East Java and establishing new homes for them. Santos can avoid future claims by dealing with the affected directly and providing relief measures. This will reduce the uncertainty regarding the future claims, but at the same time will increase the current obligations. This will reduce the risk for Santos for being taken over by another company. This step also has the added benefit of repairing the company's brand image in the minds of the people and the government of Indonesia. Hence this cost can be recognized as a provision in the financial statement, as the present obligation as a result of an obligating event has resulted in a probable outflow of resources from the company. On these grounds, Santos could recognize a provision in relation to the mudflow claims.

c. Download a copy of the annual report of Santos and then determine the actual disclosures that have been made by Santos in relation to the mudflow. You are to discuss whether you agree with the disclosure policy adopted by Santos as it relates to the mudflow.

Santos has added provisions for the mudflow in the financial statements of 2008. A restoration obligation of \$ 52.6 million has been recognized as a current liability whereas \$ 742.3 million has been recognized as a long term liability. This provision for restoration is to facilitate removal of facilities, abandoning operations and restoring affected areas. I completely agree with

the steps taken by Santos in relation to this issue and the provisions declared in the Balance Sheets for the mudflow crisis. Santos has recognized this as a provision as there is a present obligation due to its past activities. This reduces the uncertainty involved in the future claims.