Example of case study on contingent liabilities according to paragraph 10 of ias ...

Business, Company

Report to the Parent Company in the United Kingdom

In reporting to its U. K. parent under IFRSs, how should Pharma Co. account for the above restructuring program for the year ended December 31, 2010? This report to the UK parent under IFRSs requires that the company give details of the prepared exit plan and the accrued costs from this and how it is of benefit to the whole company. The first thing to be reported is the reason for the restructuring and why it is necessary as a strategic process. In this case, the reason is because the Live4 Mor drug production is to be discontinued due to its failing demand in the market and the future forecast research. Accordingly, the parent company must recognize all the costs since it initially recognizes their assets and liabilities in the acquirer's financial statements (1).

Secondly, the costs must be recognized and distinguished between provisions, contingent liabilities and contingent assets. The provision in this case includes the costs expected to be accrued due to the relocation to the new buildings which have not been processed yet. The contingent liabilities in this case include the dismantling of the old factory building, the costs of the non-voluntary termination of employees and the lease termination costs. Consequently, Pharm Co. will account for this as required by Paragraph 10 OF IAS whereby the costs associated with disposal covered by Suptopic 205-20, employee termination benefits to employees involuntarily terminated under the terms of a benefit arrangement which is a one time benefit program, and the costs associated with a disposal activity (1). All these add up to a total restructuring liability of 5. 3 million dollars. These costs cannot be recovered by any means and so they are the burden to be bared as a

result of restructuring.

The other restructuring costs are accrued as a result of relocating to the new office building and the cost of training the staff. These costs will be recovered in due time since they will be beneficial to the company in the long run. The new building will mean that the company will gain advantages that it was designed for such as access and better and improved modern facilities. The building also gives the company a new brand and image. The staff trained will ensure that the company will be able to produce more quality product as well as more skilled and competent workforce. In conclusion the costs must be fully recognized, allocated for and the source of funds to repay them can now be determined.

Report to the Pharm Co. lenders

In reporting to its U. S.-based lender in accordance with U. S. GAAP, how should Pharma Co. account for the restructuring program for the year ended December 31, 2010?

On December 27, 2010, the leaders of Pharm Co., after much deliberation and strategic consideration have determined to discontinue the research and development of our line of live4 mor drugs. This decision was reached as a response to the demand for the drug in the market from research done on the anti aging drugs technologies. As a result the company has taken the next step of forming an exit plan and this is a report of the recognized costs whereby the different types of costs have been examined individually.

Following this managerial decision, we wish to inform you as an obligation of reporting to our lenders and in the capacity of our corporate relationship that

the company incurs restructuring costs adding up to a total of 6. 3 million dollars and accrued as follows:

1. Costs arising from the termination of lease of the company's old facilities which totals to 1. 3million dollars. Here it is assumed that the lease terms are such that the accounts for the lease are operational lease.

2. Costs arising from employee involuntary termination plan adding up to 3 million dollars (1). This cost was incurred so as to reduce the company's workforce with about 120 employees which is a representation of 10 percent of the company's workforce. This is expected to be done by January 31, 2011.

3. Costs of dismantling the existing manufacturing operation are estimated to be 1 million dollars. This has not been done before in the history of our company and therefore a special exception. It is also important to note that there are no legal obligations to embark on this project. Here the accounting will be done according standards which demand the costs associated with a disposal activity (1).

Contingent assets

4. Costs arising from training of staff adding up to a total of 1. 5 million dollars thus costs to consolidate with facilities or relocate employees (1). This in the long term will enable the company to have more skillful and competent workforce in a tough drug market. This will also help the company improve on its production line and more quality products.

5. Costs arising from relocation to the new building adding up to a total of 500, 000 dollars. The company has also entered into several irrevocable

contracts with certain other relevant parties to affect the restructuring plan that will involve the company for another 18 months.

In conclusion, the management has recognized that these costs are generally balanced between the contingent liabilities and contingent assets. This information is crucial since you can now see our current operational status which is expected to improve positively in the next few years. This therefore puts you in awareness of our financial needs which we will soon be making applications for.

Works Cited

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Clyde P., Roman L., Katherine S., Jennifer F., Financial accounting: an introduction to concepts, methods, and uses, Edition13, Cengage Learning, 2009