

Student's Name

Professor's Name

Course

Date

Research Assignment

Summary

Lack of Information (LOI) has 50 warehouses that it plans to dispose of. However, the company is faced with multiple issues after an internal audit, and a manager interview is conducted. One of the main problems is that all of its warehouses contain asbestos. Secondly, out of 50 warehouses, 23 are in regions with regulations demanding special management and the discarding of asbestos during the renovation or demolition of a building. Two are situated in states with no governing regulations. LOI plans to dispose of 10 warehouses located in states with asbestos laws within the next five years, and there are no special schedules or special means of handling and disposing of asbestos. The company also needs to dispose of the two warehouses in states without asbestos laws, but it has to do so within six months, as indicated in the contract. The buyer has the freedom to request that LOI remove the asbestos before the due date. However, based on previous sales, 90 percent of buyers did not request that LOI remove the asbestos.

Applicable concepts from professional pronouncements

The case analysis will only apply code 410-20-25-7 to 410-20-25-16 to determine the issue under consideration based on LOI.

Provisions for each pronouncement

Scenario 1: Recognizing an Asset Retirement Obligation (ARO)***a) Support of LOI's position to sell its 10 warehouses in states with Asbestos Laws***

The regulation ASC 410-20-55-59 demands that an entity handles all liabilities relating to removing asbestos, as well as relating to demolition or renovation at the acquisition date. A company planning to undertake the latter has multiple options (including selling, demolishing or abandoning) to choose from to retire a factory at a future date. Since the fair value or present value is determinable only with all the necessary information available, it may be challenging to assess the worth of the ten warehouses within five years.

Solution. As indicated in the Memo, LOI plans to dispose of the 10 warehouses within five years, which may not be sufficient to gather all the information required for assessing settlement costs. Therefore, in such a case, the buyer will cover the liability costs of removing asbestos. Law ASC 410-20-25-15 indicates that parties must determine or recognize liability costs upon the date of transaction. But there is an assumption being made concerning the availability of information by LOI. The law may have been established when LOI acquired the warehouse; hence, it may also be challenging to determine the settlement cost. Generally, the law assumes that the third party and the seller are aware of the settlement cost. Therefore, while LOI would have sufficient information to determine the settlement cost, the third party may lack such data, disadvantaging them in the purchase

b) Support of LOI's position to sell the two warehouses in states without asbestos laws

Law ASC 410-25-10 alludes to the fact that there may be instances in which insufficient information is available to determine the market value of an asset upon its surrendering. For this reason, the liability cost can only be determined when all the information is available. With the

six-month contract, LOI may sell the two warehouses to the third party and fail to cater to the settlement cost, unless the buyers request it. Thus, LOI can only proceed with selling the two warehouses based on the six-month contract and should be ready to cater to the obligation cost of asbestos removal and disposal.

Solution. Since the assumption is that there is no complete information to determine the liability cost, and LOI is not ready to renovate or demolish the warehouse, then the Asset Retirement Obligation will not be recognized. Notably, the warehouses have an indeterminate useful life and cannot be used to determine the present value. Law ASC 410-20-25-15 states that even with buyers having the tendency of waiving the liability costs, such should be used as a reason to defer the recognition of liability. Thus, the buyer should recognize ARO at the acquisition date. The assumption is that the obligation cost is included in the acquisition price.

Scenario 2: Do not recognize an ARO

a) Support of LOI's position for the 13 warehouses in states with asbestos laws

ASC 410-20-55-57 assumes a buyer will obtain a factory or warehouse that contains asbestos. But the LOI's position in disposing of the remaining 13 warehouses is not indicated. As a result, the seller and buyer lack enough information to determine the market value of the ARO.

Solution. Since LOI has no scheduled date or plans to sell the warehouses, the asset value cannot be assessed at the financial date, as Law ASC 410-20-55-58 alludes to. As a result, the company needs to recognize ARO. Nevertheless, since Law ASC 410-20-55-60 indicates that the scheduling of the asset retirement performance is conditional, existing regulations create an obligation for LOI to remove asbestos in the prescribed manner, which takes place at the

acquisition date. In this scenario, LOI may not foot the bill to the buyer, but will cater to the obligation costs.