

Research Case #1 – Targeted for Termination

Due Date: September 25th

(Individual Assignment)

Objective of the Case

This case gives students an opportunity to understand the accounting for restructuring costs under IFRSs and U.S. GAAP.

Applicable Professional Pronouncements

- ASC 420, *Exit or Disposal Cost Obligations* (ASC 420)
- ASC 420-10, *Exit or Disposal Cost Obligations: Overall* (ASC 420-10)
- ASC 712, *Compensation — Nonretirement Postemployment Benefits* (ASC 712)
- ASC 712-10, *Compensation — Nonretirement Postemployment Benefits: Overall* (ASC 712-10)
- FASB Concepts Statement No. 6, *Elements of Financial Statements* (CON 6)
- IAS 19 (Revised 2011), *Employee Benefits* (IAS 19)
- IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37)

Source Materials

IFRS: <http://www.ifrs.org/IFRSs/Pages/IFRS.aspx>

- Username and password are required. The website does not charge any fees for using its service.

FASB Codification: <http://aaahq.org/ascLogin.cfm>

- Username: AAA51338
- Password: Drf99MG

Instructions

- Please discuss your answers to the two questions listed below using no more than three pages (double-spaced).
- Please provide me with one printed copy of your write-up. Be sure to properly cite the FASB Codification, IFRS and any other sources you use in the body of the paper.
- If you cite something other than the FASB Codification and IFRS, please indicate your source either in a footnote or a reference list.
- Whenever possible, base your responses on information from the FASB Codification and IFRS.
- Submit an electronic version (Word document or PDF) to WebCampus before or at 9 a.m. on September 25th. Your write-up submission will be subject to a plagiarism detection service such as 'Turnitin.'

Grading Criteria

Total points 72.5 points

- Completeness – 5.5 points
- Proper use of FASB codification and IFRS – 9 points
- Clarity and conciseness – 10 points
- Correctness - Question 1 (Employee benefits) 8 points
- Correctness - Question 1 (Lease termination costs) 8 points
- Correctness - Question 1 (Retraining and relocation costs) 8 points
- Correctness - Question 2 (Employee benefits) 8 points
- Correctness - Question 2 (Lease termination costs) 8 points
- Correctness - Question 2 (Retraining and relocation costs) 8 points

Targeted for Termination

Pharma Co. (Pharma or the “Company”) is a U.S. subsidiary of a UK entity that prepares its financial statements in accordance with (1) U.S. GAAP for reporting to its U.S.-based lender and (2) IFRSs for reporting to its parent. Pharma is restructuring a business line. As part of the restructuring, the Company is considering the relocation of a manufacturing operation from its present location to a new facility in a different geographic area. The relocation plan would include terminating certain employees.

Pharma has taken the following actions:

1. On December 27, 20X1, Pharma management communicated the main features of a one-time, nonvoluntary termination plan to its employees. The communication to the employees is included as Appendix A. Receipt of this one-time termination benefit is contingent on employees’ continued service through the date Pharma ceases production and closes the facility. The Company estimates that the one-time termination benefit is \$2.5 million. In addition, Pharma has a historical practice of providing two weeks’ severance to individual employees upon nonvoluntary termination. The Company estimates that the cost of two weeks’ severance for affected employees is \$500,000. Finally, in accordance with the facility manager’s employment agreement, the facility manager will receive an additional lump-sum benefit of \$50,000 upon closure of the facility. Given the insignificant time between the date of the communication and the date the employees will be terminated, the Company is assuming that fair value of the costs listed above equals the estimated amounts.
2. Pharma will incur a relocation cost of \$500,000 and staff training cost of \$1.5 million. Further, the Company has entered into irrevocable contracts with certain other relevant parties to affect the restructuring plan over the ensuing 18 months.
3. On December 29, 20X1, Pharma issued a press release announcing its intentions to terminate the lease of its present facility, incurring an early termination fee in addition to its normal rental payments through the date of termination. The press release is included as Appendix B. Assume the terms of the lease are such that Pharma accounts for the lease as an operating lease. Further, the lease agreement stipulates that written notice in the form of a letter or e-mail from Pharma directly to the lessor is required for early termination.

Required:

1. How should Pharma account for the above in its IFRS financial statements as of and for the year ended December 31, 20X1?
2. How should Pharma account for the above in its U.S. GAAP financial statements as of and for the year ended December 31, 20X1?

In answering these questions, students should provide an analysis of how Pharma should account for (1) employee benefits, (2) lease termination costs, and (3) retraining and relocation costs.