

## Case 10-4

### Lack of Information

As indicated in the following memo, Lack of Information (LOI) has identified obligations to handle and dispose of asbestos upon retirement of several of its warehouses. Also as reflected in the memo, LOI has decided that it is not required to recognize any liabilities related to these obligations because it has asserted that the obligations are not probable or that it does not have sufficient information available.

#### Required:

- For each identified obligation, determine whether you agree with LOI's conclusion and discuss the basis for your determination.

**MEMO**

To: Audit Engagement Team  
From: Controller, Lack of Information  
Subject: ASC 410-20 — Asset Retirement Obligations Summary  
Date: December 31, 2010

**Identification and Analysis of Potential Asset Retirement Obligations**

Lack of Information (LOI) owns and operates 50 warehouses throughout the country. As part of LOI's efforts to identify potential asset retirement obligations, LOI's internal audit group held interviews with all 50 of the warehouse managers and also performed site visits at each of the 50 locations. The related findings of the interviews and site visits noted the following facts:

- 25 of the warehouses contain asbestos; all but 2 of the warehouses reside in states that have laws in place that require the special handling and disposal of the asbestos when the building is demolished or otherwise significantly renovated. There are no other events that will require the removal and special handling and disposal of the asbestos, except as indicated in the third bullet below.
- Regarding 10 of the 23 warehouses containing asbestos that reside in states with special asbestos handling and removal laws, LOI has plans to sell within the next five years and does not have plans to demolish or otherwise significantly renovate such warehouses prior to their disposal. Because LOI will never effectively have to settle the obligation to remove the asbestos from the building(s), it does not have an asset retirement obligation that needs to be recognized.
- 2 of the 25 warehouses containing the asbestos reside in states that **do not** have laws in place requiring the special handling and disposal of the asbestos when the building is demolished or otherwise significantly renovated. However, LOI does have a legally binding contract to sell the warehouses in six months to a third party. The purchase/sales contract contains a standard provision allowing the buyer to require LOI to remove the asbestos prior to the date of the sale. LOI has previously sold warehouses to this same third party based on purchase/sales contracts containing similar provisions related to the removal of asbestos. In each of those transactions, the third party has never enforced the provision requiring LOI to remove the asbestos from the warehouses. Based on this prior experience with the third party, LOI believes that there is a 90% probability that the third party will not enforce the provision in the current purchase/sales contract requiring LOI to remove the asbestos. Because it is not probable that LOI will be required to remove the asbestos, no asset retirement obligation needs to be recognized. At worst, there is not sufficient information (based on ASC 410-20-25-10) to determine the fair value of the asset retirement obligation as it is currently uncertain as to whether LOI will be required to remove the asbestos.

- Regarding 13 of the 23 warehouses containing asbestos that reside in states with special asbestos handling and removal laws, LOI has owned and operated for over 50 years with only minor renovations and repairs being performed over those years. LOI has no plans in the foreseeable future to make significant renovations or to demolish the warehouses, but will continue to perform maintenance and repair activities as deemed necessary. LOI does not have sufficient information to measure its asset retirement obligation due to an indeterminate settlement date based on the guidance in ASC 410-20-25-10.