Case 16-8
Frozen

Ballooning Out of Control LLC ("BLOC" or the "Company") is a manufacturer of hot air balloons. Due to decreased demand for hot air balloons and challenging industry conditions, BLOC's management is exploring ways to reduce the Company's rapidly rising compensation and benefit costs. Management has determined it will either (1) amend the Company's single employer defined benefit pension plan by eliminating the future earning of pension benefits for its employees (i.e., freeze its pension plan) or (2) reduce headcount across the Company by 5%. Either option will require approval by BLOC's board of directors.

If BLOC decides to freeze its current pension plan, it will not offer any new pension benefits to its employees through another plan. BLOC's current pension plan is the only retirement benefit arrangement it provides to its employees. The plan's pension benefits are based on years of service and average salary for the last five years of the employee's service period, and all employees, both hourly and salaried, who have attained six months of service are participants in the pension plan.

Under the plan freeze, the Company will eliminate the accrual of additional pension benefits for future service. However, the Company will continue to take future salary increases into account in computing the average salary for the last five years before retirement when determining the pension benefits earned for service prior to the plan freeze. (This type of plan amendment is commonly referred to as a "soft freeze.").

The pension plan freeze will be effective on October 1, the beginning of BLOC's next fiscal year, and is expected to be approved and communicated to employees prior to BLOC's September 30 year-end.

If BLOC's management decides instead to reduce costs by reducing headcount by 5 percent, it anticipates that the board of directors would approve the reductions and management would communicate its plans to the affected employees prior to September 30.

Before choosing which cost-cutting plan to recommend to the board of directors, management would like to determine how to account for each alternative.

Required:

1. Determine how to account for each of the following alternative actions to reduce BLOC's increasing compensation and benefit costs:

    a. Management decides to amend the pension plan by eliminating the accrual of pension benefits for future service, while continuing to take future salary increases into account in determining pension benefits at retirement (i.e. a soft freeze).

b. Management decides to permanently lay off 5% of BLOC's plan-eligible workforce while retaining the current pension plan.

2. What are the differences, if any, between the requirements of U.S. GAAP and IFRSs in accounting for the two alternative actions management is considering?