Case 13-8c
Accounting for a Loss Contingency

M International (M) and W Inc. (W), a competitor of M, have been engaged in long-standing litigation over a specific patent infringement matter. Below is a summary timeline of specific events that have taken place related to this matter:

- In May 2020, W filed a claim against M for patent infringement.

- For the year ended December 31, 2020, management of M determined that a loss for this matter was probable and represented that the estimate of loss was in the range of $15 million to $20 million, with $17 million being the most likely amount of loss within the range.

- A jury trial took place in September 2022.

- The jury reached a verdict on September 24, 2022, and a judgment was ordered in favor of W. The judgment required M to pay W $18.5 million.

- In November 2022, M filed a Notice of Appeal with the Court of Appeals.

- In December 2023, the Court of Appeals issued a ruling in favor of M's appeal and reversed the lower court's ruling on the matter. This meant that the Court of Appeals overturned the jury verdict and the $18.5 million judgment against M.

- On January 6, 2024, W filed a petition for a re-hearing before the same panel of appellate judges against the reversal of ruling by Court of Appeals.

- On February 10, 2024, the appellate judges declined the petition for a re-hearing.

- On February 28, 2024, management of M determined this matter was closed upon discussions with in-house legal counsel.

Required:

1. For the year-end December 31, 2020, financial statements, what amount should M record as a liability?

2. For the year-end December 31, 2022, financial statements, should M adjust its liability? If so, what amount should be recorded; and should the amount of the adjustment be considered a 2022 event or a prior period adjustment?

3. Should M record the reduction of the previously recorded loss contingency in 2023 (upon the Court of Appeals overturning the verdict of the jury) or 2024 (once the appellate judges declined W's petition for a re-hearing)?