

Case 21-2c
Contingencies — Product Recall

Pharma-C Inc. (“Pharma-C”) develops and manufactures generic prescription drugs and over-the-counter medications. While Pharma-C is headquartered in the United States, its parent company is headquartered in Germany. During November 2020, Pharma-C distributed 10,000 bottles of its grape-flavored children’s cough medicine to various distributors and retailers.

On December 31, 2020, Pharma-C discovered that 2,000 of the bottles were distributed with dosing cups that are missing the appropriate 5mL and 10mL graduations. Pharma-C is concerned that the use of the incorrect dosing cups could result in dangerous overdoses to children.

There are no laws or regulations requiring Pharma-C to recall the children’s cough medicine because of the incorrect dosing cups. In addition, there have been no consumer lawsuits brought against Pharma-C for the distributed bottles. Because of the potential risk to children associated with the mislabeled dosing cups, Pharma-C decided to voluntarily recall the children’s cough medicine. On January 2, 2021, Pharma-C announced the recall of the affected bottles, which is estimated to cost Pharma-C \$10,000.

Discussion:

In its financial statements for the year ended December 31, 2020, how should Pharma-C account for the voluntary product recall under: (1) U.S. GAAP and (2) IFRS[®] in reporting to its parent company in Germany?