Case 26-1

More Information Required

More Information Required (MIR) has prepared a memo to its audit engagement team in which it identifies obligations to remove and dispose of asbestos upon retirement of several of its 50 warehouses. MIR concludes in the memo that it is not required to recognize any liabilities related to these obligations because it asserts that it is not probable that the obligations will be enforced or that there is insufficient information available to measure the liabilities. The memo below identifies and analyzes MIR's potential asset retirement obligations.

MEMO

To: Audit Engagement Team
From: Controller, More Information Required
Subject: ASC 410-20 — Asset Retirement Obligations Summary
Date: December 31, 20X2

Identification and Analysis of Potential Asset Retirement Obligations

More Information Required (MIR) owns and operates 50 warehouses throughout the country. As part of MIR's efforts to identify potential asset retirement obligations, the company's internal audit group held interviews with all its warehouse managers and performed site visits at each of the 50 locations. It was revealed that 25 of the warehouses contain asbestos and 25 do not. Additional findings from the interviews and site visits are noted below:

- Twenty-three of the 25 warehouses that contain asbestos are located in states that legally **require** special handling and disposal of asbestos when a building is significantly renovated or demolished. There are no other events that will require the removal, special handling, and disposal of the asbestos, except as indicated in the fourth bullet below.
- MIR plans to sell 10 of those 23 warehouses within the next five years and does not plan to significantly renovate or demolish the warehouses before their disposal. Because MIR 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.
- MIR has owned and operated 13 of those warehouses for over 50 years, with only minor renovations and repairs performed during that time. MIR has no plans in the foreseeable future to make significant renovations to or demolish the warehouses, but will continue to perform maintenance and repair activities as deemed necessary. MIR does not have sufficient information to measure its asset retirement obligation due to an indeterminate settlement date, in accordance with the guidance in ASC 410-20-25-10.
- Two of the 25 warehouses containing asbestos are located in states that **do not** legally require the special handling and disposal of asbestos when a building is significantly renovated or demolished. However, MIR does have a legally binding contract to sell the warehouses in six months to a third-party buyer. The purchase/sales contract contains a provision that allows the buyer to require that MIR remove the asbestos before the date of the sale. MIR has previously sold its warehouses to other buyers with similar purchase/sales contract provisions related to the removal of asbestos. In each of those transactions, the buyer has never enforced the provision. As a result, MIR believes that there is a 90 percent probability that its current buyer will not enforce the provision in the purchase/sales contract to remove the asbestos. Because it is not probable that MIR will be required to remove the asbestos, no asset retirement obligation needs to be recognized. MIR does not have sufficient information to determine the fair value of the asset retirement obligation since the company is uncertain whether it will be required to remove the asbestos, in accordance with the guidance in ASC 410-20-25-10.