C19-4 Conceptual Issues
LO 19.4
In this chapter, the conceptual issues related to pension liabilities and pension plan assets are discussed.

Required:
Explain how GAAP resolves each of these three conceptual issues.

C19-5 Other Postretirement Benefits
LO 19.5
Companies often provide their employees with postretirement benefits other than pensions. These benefits may include health insurance, life insurance, and disability benefits.

Required:
Explain how the accounting for these other postretirement benefits is similar or dissimilar to accounting for pensions.

CREATIVE AND CRITICAL THINKING

C19-6 Income Smoothing
LO 19.2
Income smoothing is the concept of reducing the period-to-period fluctuations in revenues and expenses in order to decrease the variability of reported income. GAAP generally does not support income smoothing; however, a friend of yours, after studying GAAP, claims, "The use of expected returns and the corridor approach in pension accounting results in income smoothing."

Required:
Describe the methods by which GAAP avoids year-to-year fluctuations in the amount of pension expense.

C19-7 Pension Issues
LO 19.2
MacAdams Company had engaged in large amounts of R&D to develop a new product that would put the company ahead of its Japanese competition. As a result, the company's profits were severely reduced, and the president was concerned about the possibility of a takeover by a European competitor. The president was discussing the situation with the controller and said, "Your accounting principles make me so mad. Here we are working hard to develop a product to beat the rest of the world, and you won't let me treat any of those costs as an asset."

The controller replied, "I understand your frustration. And please remember they are not 'my' principles."

"I know," responded the president. "Do you have any suggestions?"

"Well," the controller replied, "we can't adjust R&D expense, but we can reduce our pension expense. One easy way to increase our profits would be for the board of directors to vote to increase the discount rate used for computing the present values and to increase the expected rate of return on plan assets. Both of those would have the effect of reducing the pension expense."

"Great idea. I will have to remember that when it is time for the year-end bonuses."

Required:
Write a short report evaluating the controller's suggestion.

C19-8 OPRB Issues
LO 19.5
"Will it cost your company your company? Ready for one of the most difficult challenges ever to confront corporate America? One that is estimated to cost up to $400 billion. New FASB regulations will force companies to measure and post as a debit their health expense obligation to current and *future* retirees... We'll help you minimize the financial impact of these regulations and still enable you to remain responsive to the benefit needs of employees." (Excerpts from an advertisement by CIGNA, a large insurance company.)

"Forget about retiring with all-expenses-paid health care from your employer. About 65% of U.S. companies have reduced benefits. Some have asked retirees to pay more of the costs, while others have eliminated the plans altogether. Blame soaring medical expenses and a new accounting rule that requires companies to post long-term retiree medical benefits as liabilities on their balance sheets." (Adapted from *BusinessWeek*, August 24, 1992, p. 39.)

Required:
1. Critically evaluate the content of the advertisement.
2. Explain why companies may have reduced benefits when they adopted new GAAP.

C19-9 Analyzing Coca-Cola's Postretirement Benefit Disclosures
LO 19.2
LO 19.5
Obtain **The Coca-Cola Company**'s 2013 annual report either using the "Investor Relations" portion of its website (do a web search for Coca-Cola investor relations) or go to http://www.sec.gov

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