



EITF update

The 9th Annual Financial Reporting Conference
Baruch College
29 April 2010



2009-2010 EITF Review

- ▶ Revenue recognition
- ▶ Financial services & financial instruments
- ▶ Health care
- ▶ Other

ASU 2009-13, Multiple-Deliverable Revenue Arrangements (Issue 08-1)

- ▶ Issue: Vendor-specific objective evidence (VSOE) or third-party objective evidence (TPE) of fair value required to separate deliverables and recognize revenue
 - ▶ In some cases, revenue recognition deferred until all elements are delivered, due to lack of VSOE or TPE
 - ▶ Accounting often did not reflect the underlying economics of a transaction

- ▶ Example: Sell equipment for \$100,000 and annual maintenance for \$5,000 a year for four years
 - ▶ If VSOE or TPE exists for both (say, \$110,000 and \$6,000 respectively),
 - ▶ Allocate \$98,507 ($\$110,000 / \$134,000 \times \$120,000$) to equipment recognized upon delivery
 - ▶ Allocate \$21,493 ($\$24,000 / \$134,000 \times \$120,000$) to maintenance recognized over four years
 - ▶ If VSOE or TPE exists for neither element, recognize \$120,000 ratably over four years

ASU 2009-13, Multiple-Deliverable Revenue Arrangements (Issue 08-1)

- ▶ Key changes likely result in less revenue deferral
 - ▶ Revises the separation criteria for treating deliverables as separate units of account – similar to FASB’s proposal in revenue recognition project
 - ▶ Allows management’s best estimate to allocate consideration when VSOE or TPE are not available
 - ▶ Expands disclosure requirements

- ▶ Effective first annual reporting period beginning after 15 June 2010
 - ▶ Early adoption permitted
 - ▶ Prospective or retrospective adoption permitted

ASU 2009-14, Certain Revenue Arrangements that Include Software Elements (Issue 09-3)

- ▶ Issue: Uneconomic revenue reporting for software enabled devices
 - ▶ Similar to multiple deliverable model just discussed, but requires VSOE
- ▶ Excludes the following from scope of software revenue recognition guidance (ASC 985-605; formerly SOP 97-2):
 - ▶ Non-software components of software enabled tangible products
 - ▶ Software, if software and nonsoftware components function together to deliver essential functionality
 - ▶ Undelivered software components that are part of the initial transaction that are essential to tangible product's functionality
- ▶ Results in tangible products that rely on software to be subject to the multiple element guidance (ASU 2009-13)
- ▶ Effective date and transition the same as ASU 2009-13

Issue 08-9, Milestone Method of Revenue Recognition

- ▶ Issue: What criteria must be met to recognize revenue for contingent milestone payments in its entirety upon achievement
- ▶ Scope (narrowed from proposed ASU)
- ▶ Applies to research or development arrangements
- ▶ Accounting policy election - revenue for the milestone payments would be recognized in full upon achievement of substantive milestone
- ▶ Milestone must have substantive (not trivial) uncertainty of achievement
- ▶ Consideration is commensurate with value of vendor's performance or enhancement of value of deliverable
- ▶ Consideration must relate solely to past performance
- ▶ Final consensus, effective for fiscal years, and interim periods within those fiscal years, beginning after 15 June 2010

Issue 09-I, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset

- ▶ Issue: Whether the troubled debt restructuring criteria should be applied to loan modifications of individual loans within a pool
- ▶ Acquired credit-impaired loans with similar characteristics may be accounted for as a single pooled asset
- ▶ Precludes troubled debt restructuring accounting from being applied to loans within the pool that are modified
 - ▶ Affirms predominant practice
- ▶ Board to consider additional disclosures in existing project on disclosures about credit quality of receivables
- ▶ Final consensus, effective for first reporting period, including interim periods, ending after 15 July 2010

Issue 09-B, How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis

- ▶ Issue: Whether an insurance company should consider interests held in separate accounts as its own when determining whether an investment must be consolidated
- ▶ Scope expanded to include interests in variable interest entities
- ▶ Decision to consolidate an investment should be based only on the interest held by the general accounts of the insurance company
 - ▶ Generally, consolidation not required when separate account holds controlling interest
 - ▶ ASU largely codifies existing practice
- ▶ Specifies presentation if consolidation required
- ▶ Final consensus, effective for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2010

Issue 09-G, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

- ▶ No final consensus - further discussion anticipated at the June 2010 meeting
- ▶ Issue: Costs related to acquisition of new or renewal contracts are capitalized and amortized over the period premium revenue is recognized
- ▶ Current definition of capitalizable costs is subject to interpretation and significant diversity in practice exists
- ▶ Issue will amend definition of capitalizable costs
 - ▶ Incremental direct costs of a successful contract acquisition
 - ▶ Portion of compensation and payroll-related fringe benefits for employees related to successful contract acquisition
- ▶ Significant change in practice for insurance entities as many capitalized costs associated with unsuccessful efforts

Other pending issues

- ▶ Issue 09-H, Health Care Entities: Revenue Recognition
 - ▶ No consensus for exposure; further discussion expected
 - ▶ Issue—whether collectibility must be reasonably assured prior to a health care entity recognizing revenue

- ▶ Issue 09-K, Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries
 - ▶ Consensus for exposure
 - ▶ Netting of prepaid insurance and insurance recoveries not permitted, unless offsetting criteria of ASC 210-20 (FIN 39) are met

- ▶ Issue 09-L, Health Care Entities: Measuring Charity Care for Disclosure
 - ▶ Consensus for exposure
 - ▶ Proposes direct and indirect costs as basis for measuring charity care

Other final guidance

- ▶ Issue 09-J, Compensation—Stock Compensation (Topic 718) – Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades
 - ▶ Years beginning on or after 15 December 2010
- ▶ Issue 09-F, Entertainment—Casinos (Topic 924) – Accruals for Casino Jackpot Liabilities
 - ▶ Years beginning on or after 15 December 2010
- ▶ ASU 2010-01, Equity (Topic 505) – Accounting for Distributions to Shareholders with Components of Stock and Cash
 - ▶ Periods ending on or after 15 December 2009
- ▶ ASU 2009-15, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing
 - ▶ Years beginning on or after 15 December 2009 (earlier for new transactions)