



## EITF Reaches Two Final Consensuses

The FASB's Emerging Issues Task Force reached two final Consensuses on presentation and disclosures related to revenue and bad debt expense for health care entities and accounting for certain fees charged to health insurers associated with recently enacted health care legislation.<sup>1</sup> A proposed Consensus was reached on the accounting for the derecognition of real estate held by a subsidiary that is considered in-substance real estate.<sup>2</sup>

The FASB is expected to ratify the new Consensuses at its July 13 meeting and, if it does, the Consensuses will become authoritative GAAP. The proposed Consensus will be exposed for public comment if the FASB gives its approval at its July 13 meeting and will be considered further at a future EITF meeting.

### Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts (09-H)

Diversity exists among health care entities when recognizing patient service revenue.<sup>3</sup> The predominant industry practice recognizes patient service revenue (excluding charity care services) when services are provided and adjusts for contractual allowances and discounts based on third-party payor or other arrangements. Health care entities generally do not consider their ability to collect when initially recognizing patient service revenue and instead record bad debt expense, if necessary. For example, for patients with no insurance (self-pay), it is typical to record revenue at gross charges along with a relatively high bad-debt expense. Other health care entities recognize patient service revenue only after deciding that collection is reasonably assured.<sup>4</sup>

The Task Force determined that the concerns caused by health care entities recording patient service revenue on a gross basis without regard to collectibility would best be addressed at this time by changing where bad debt expense is presented in the income statement and through expanded note disclosures rather than by changing the revenue recognition model. The Task Force reached a final Consensus that would require health care entities to separately present bad debt expense related to patient service revenue as a reduction of patient service revenue (net of contractual allowances and discounts) on the income statement for entities that do not assess a patient's ability to pay prior to rendering services (i.e., the ultimate collection is not determined at the time services are rendered). The net presentation of bad debt expense in revenue would not apply to bad debts that are not related to patient service revenue, to entities that do not provide services prior to

### Contents

Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts (09-H)	1
Fees Paid to the Federal Government by Health Insurers (10-H)	2
Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate (10-E)	3

<sup>1</sup> Final Consensuses: EITF Issues No. 09-H, Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts, and No. 10-H, Fees Paid to the Federal Government by Health Insurers, both available at [www.fasb.org](http://www.fasb.org).

<sup>2</sup> Proposed Consensus: EITF Issue No. 10-E, Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate, available at [www.fasb.org](http://www.fasb.org). Proposed Consensuses are formally called "Consensuses for Exposure" by the FASB.

<sup>3</sup> FASB ASC Topic 954, Health Care Entities, available at [www.fasb.org](http://www.fasb.org).

<sup>4</sup> FASB ASC Topic 605, Revenue Recognition, available at [www.fasb.org](http://www.fasb.org).

assessing a patient's ability to pay, or to entities that recognize revenue only after deciding that collection is reasonably assured.

The final Consensus will require health care entities to disclose information about the activity in the allowance for doubtful accounts, such as recoveries and write-offs, by using a mixture of qualitative and quantitative data. It will also require health care entities to disclose the following by major payor source of revenue (such as third-party payors and self-pay patients):

- Policy for assessing the timing and amount of uncollectible revenue recognized as bad-debt expense;
- Policy for assessing collectibility in the timing and amount of revenue (net of contractual allowances and discounts); and
- Patient service revenues (net of contractual allowances and discounts) for the period before the provision for bad debts.

The final Consensus will be effective for interim and annual periods beginning after December 15, 2011 for public companies and for annual reporting periods ending after December 15, 2012 for nonpublic companies. Retrospective application will be required for presenting bad debt expense related to patient service revenue as a reduction of revenue while prospective application will be required for the expanded note disclosures.

### **Fees Paid to the Federal Government by Health Insurers (10-H)**

The health care legislation enacted in 2010 imposes an annual fee on pharmaceutical manufacturers and importers that sell branded prescription drugs to specified government programs for each calendar year beginning after 2010. This legislation also levies a similar fee on health insurers that provide certain health insurance services during calendar years beginning on or after January 1, 2014. Questions had arisen about the appropriate income statement classification of those fees and when they should be recognized as an expense.

At the November 2010 meeting, the Task Force reached a final Consensus that the liability related to the annual fee imposed on pharmaceutical manufacturers should be estimated and recorded in full upon the first qualifying sale of branded prescription drugs that would cause the entity to be subject to the fee for the year.<sup>5</sup> A corresponding deferred cost would also be recognized and amortized into operating expense using a straight-line method of allocation throughout the calendar year in which the fee is paid (unless another method better allocates the fee). No additional disclosures would be required.

Based on questions raised by health insurers, the Task Force considered whether the health insurer fees should be accounted for in the same manner as the pharmaceutical industry fees. The Task Force also discussed whether the health insurer fees would be considered a deferred acquisition cost (DAC). The Task Force reached a final Consensus that the fees imposed on health insurers should be accounted for in the same manner as the pharmaceutical industry fees and that these fees would not be considered eligible for DAC accounting treatment.

---

<sup>5</sup> FASB Accounting Standards Update No. 2010-27, Fees Paid to the Federal Government by Pharmaceutical Manufacturers, available at [www.fasb.org](http://www.fasb.org).

## Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate (10-E)

Single-purpose entities considered to be “in-substance real estate” may be capitalized, in whole or in part, by nonrecourse debt that is used to finance the purchase of real estate. The investor in these entities will frequently own all of the equity interests and will generally consolidate the single-purpose entities at inception because it has a controlling financial interest. As a result of deteriorating real estate market conditions, the entity may default on the nonrecourse debt or file for bankruptcy, which may lead to the investor losing its controlling financial interest under the consolidation guidance.<sup>6</sup> Practice differs with respect to whether the investor must also satisfy the criteria for sales or transfers of real estate in ASC Subtopic 360-20 before derecognizing the real estate.<sup>7</sup>

The primary issue addressed by the Task Force is whether the sale of real estate guidance applies to the derecognition of real estate in the consolidated financial statements of a reporting entity when the real estate is held in a subsidiary that is in-substance real estate. At its November 2010 meeting, the Task Force reached a tentative Consensus that the authoritative literature on sales of real estate does apply to the derecognition of real estate in those circumstances; however, the Task Force requested that the FASB form a working group to address questions about applying the real estate guidance in ASC Subtopic 360-20 prior to exposing the proposed Consensus for public comment.

Because of concerns about how the broadly defined tentative Consensus might be applied in different situations, the Task Force decided at the June 2011 meeting to limit its consideration to the question originally raised. Accordingly, the Task Force reached a proposed Consensus that investors in a single-purpose entity, similar to the one described above, would be required to apply the real estate guidance in ASC Subtopic 360-20 before derecognizing the real estate when the nonrecourse debt is in default and the real estate may be transferred to the lender to satisfy the debt. Derecognition under the real estate guidance generally would occur later than deconsolidation of the single-purpose entity under the consolidation guidance. If finalized at a later meeting, the proposed Consensus would be applied on a prospective basis. No new disclosures would be required.

---

<sup>6</sup> FASB ASC Topic 810, Consolidation, available at [www.fasb.org](http://www.fasb.org).

<sup>7</sup> FASB ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales, available at [www.fasb.org](http://www.fasb.org).

---

### Contact us:

This is a publication of KPMG's  
Department of Professional Practice  
212-909-5600

### Contributing authors:

Mark M. Bielstein  
Brad M. Watkins

### Earlier editions are available at:

<http://www.kpmginstitutes.com/financial-reporting-network>

The descriptive and summary statements in this newsletter are not intended to be a substitute for the texts of the EITF's Consensuses, FASB pronouncements, FASB Codification, SEC staff announcements, official minutes, or any other potential or actual requirements. To determine the appropriate accounting treatment for a transaction, entities should refer to the texts of the applicable documents that set out requirements, including the formal EITF meeting minutes and abstracts that are available on the FASB Website, consider their specific circumstances, and consult their accounting and legal advisors.

Defining Issues® is a registered trademark of KPMG LLP.

©2001-2011 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.