

# AcSEC UPDATE

A publication of the Accounting Standards Executive Committee  
and the Accounting Standards Team of the AICPA

## EFFECTIVE DATES

SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*. The SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. A number of questions have been raised by auditors and insurers regarding the implementation of SOP 05-1. As a result, a task force made up of members of the SOP 05-1 task force and the Insurance Expert Panel has been formed to review questions submitted and to determine whether interpretive guidance, in the form of Technical Practice Aids, is warranted. The FASB held a public roundtable meeting in January 2007 to discuss SOP 05-1 implementation issues and requests for deferral of the effective date. Readers should be alert for any decisions reached by the FASB. The AICPA will not issue any Technical Practice Aids related to SOP 05-1 prior to the FASB roundtable meeting.

## ORDERING PUBLICATIONS

### To Order Copies of AcSEC Documents:

**Call** 888-777-7077 (option #1);

**Fax** 800-362-5066;

**Write** AICPA/cpa2biz Order Department, P.O. Box 2209, Jersey City, NJ 07303–2209;

**Online:** SOP exposure drafts - [www.aicpa.org](http://www.aicpa.org); final pronouncements and all other AICPA publications - [www.cpa2biz.com](http://www.cpa2biz.com).

## AcSEC SHOWS APPRECIATION

*Thanks to Outgoing AcSEC Members,  
Welcome to New AcSEC Members*

We thank the following outgoing AcSEC members for their dedicated service to the Committee and the improvement of financial reporting:

John Althoff, PricewaterhouseCoopers LLP

Holly Nelson, JetBlue Airways Corporation

Steve Lilien, Baruch College

Peter Knutson

We welcome the following new AcSEC members:

Neri Bukspan, Standard and Poor's

Brett Cohen, PricewaterhouseCoopers LLP

Faye Feger, BMC LLP

Robert Uhl, Goldman, Sachs & Co

## AcSEC SOP AGENDA PROJECTS

-----2007-----

As of January 1, 2007

	1 Q		2 Q		3 Q		4 Q
<b>Financing and Lending Activities</b>							
Allowance for Credit Losses — SOP							
<b>Investment Industry</b>							
Scope Clarification, Investment Companies Guide — SOP	F						
Real Estate Funds Chapter of Investment Companies Guide							

Codes:

**E - Exposure Draft anticipated or actual issuance date**

**F - Final Pronouncement anticipated or actual issuance date**

### AcSEC's CURRENT SOP PROJECTS

#### **Allowance For Credit Losses**

*Description and background.* This project had been intended to provide additional guidance, within the framework of existing FASB literature, on periodic credit loss provisions and the related allowance for credit losses.

On June 19, 2003, AcSEC issued an exposure draft for public comment. AcSEC discussed the comments received on the exposure draft at its December 2003 meeting. At that meeting, a majority of AcSEC members tentatively expressed support for proceeding with a project to provide guidance on the application of existing literature on

accounting for credit losses or enhanced financial statement disclosures regarding the allowance for credit losses.

At its January 2004 meeting, the FASB observer reported that he discussed the project with six FASB members individually since the December 2003 meeting. Given the questions raised in the exposure draft about the FASB Statement No. 5 model in relation to credit losses, those Board members expressed significant concerns about the usefulness of AcSEC moving forward with the current project in the context of existing literature. There was support, however, for continued efforts to develop improved disclosures. In the light of that report and given the tentative views expressed at its December 2003 meeting, AcSEC agreed to move forward with a project to consider only disclosures about the allowance for credit losses.

***Current developments and plans.*** At its September 20-21, 2005, meeting, AcSEC approved (11-0) the issuance for public exposure of a draft Statement of Position, *Disclosures Concerning Credit Losses Related to Loans*, subject to a final review of a revised draft by AcSEC in November 2005. AcSEC decided that the SOP should apply to all entities that hold loans as assets and not just to financial institutions. The proposed SOP would have been effective for years ending after December 15, 2006 (though because of the passage of time, that effective date would need to be reconsidered), and comparative disclosures would be required in the year of transition. AcSEC asked the task force to add additional examples and made a number of suggestions for clarifying the SOP. At its November 15-16, 2005, meeting, AcSEC made further modifications to the proposed disclosure requirements and voted (15-0) to proceed to a ballot draft of an exposure draft SOP.

The proposed SOP would require creditors to disclose information that enables users of the financial statements to understand the activity in the allowance for loan losses and the effects of that activity on the reported financial position and results of operations of the creditor. To achieve that objective, it would require disclosures about the allowance for loan losses and the related loan portfolio regarding (a) credit risk exposures, (b) accounting policies and methods, and (c) credit quality.

At the September 2006 AcSEC meeting, the FASB staff informed AcSEC that, after consultation with individual Board members, the staff has recommended that the FASB not proceed with clearing the draft ED at this time.

The staff indicated that FASB members believe that AcSEC's draft raises important issues. However, they are concerned about a number of factors inherent in the document, including its interaction with other important issues being addressed in several active FASB projects, including derivatives disclosure, fair value option, and financial guarantees. More importantly, some Board members are concerned that the current incurred-loss model does not provide the most relevant information to users of the

financial statements. The FASB staff is expected to bring these issues to the Board as a formal agenda request to review the accounting, disclosure, or both in this area.

Staff: Fred Gill

## **Clarification of the Scope of the Investment Companies Guide**

***Description and background.*** In February 1999, the FASB cleared a prospectus for a project to develop an SOP to address the scope of the AICPA Audit and Accounting Guide *Audits of Investment Companies*. At that meeting, the FASB expressed concern that the scope of the then proposed Guide may be unclear. (The scope provisions of the Guide, which was issued in November 2000, are unchanged from the previous Guide.) This project will address whether more specific attributes of an investment company can be identified to determine if an entity is within the scope of the Guide. Also, this project will address whether investment company accounting should be retained by a parent company (of an investment company) in consolidation or by an investor (in an investment company) that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. Until this project is finalized, an entity should consistently follow its current accounting policies for determining whether the provisions of the Guide apply to investees of the entity or to subsidiaries that are controlled by the entity.

In December 2002, AcSEC issued an exposure draft of a proposed SOP, *Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. AcSEC subsequently discussed the comment letters received on the exposure draft and proposed revisions to the SOP at its June, July, and September 2003 meetings.

***Tentative conclusions.*** Some of the conclusions reached by AcSEC in discussions after the exposure draft are as follows:

- The SOP should include an overarching definition of an *investment company* (a separate legal entity), focusing on purpose (investing in multiple substantive investments for current income, capital appreciation, or both rather than for strategic operating purposes).
- The SOP should include factors to consider to help entities weigh all existing evidence in determining whether the entity meets the overarching definition of an *investment company*. Depending on the facts and circumstances, some factors may be more significant than others. (The factors are derived from the conditions in the ED.)

- Two categories of investment companies should exist: regulated investment companies (within the scope of the Guide) and all other investment companies (based on the overarching definition and evaluation of factors).
- The SOP should include illustrations demonstrating the application of the guidance in the SOP to various fact patterns.
- The SOP should not include separate guidance for direct interests in real estate. The SOP should include illustrations of behavior pertaining to investments of direct interests in real estate and application of the guidance in the SOP to those fact patterns. The aim of those illustrations should be to demonstrate that typical activities undertaken by investment companies pertaining to direct interests in real estate would not necessarily disqualify the entity from using investment company accounting. Those illustrations also should provide indications of the type of activities related to real estate operations that would be inconsistent with the activities of an investment company.
- The SOP should include conditions that must be evaluated to determine whether the specialized industry accounting principles of the Guide applied by a subsidiary or equity method investee should be retained in the financial statements of the parent company or an investor that applies the equity method of accounting to its investments in the entity. Those conditions are intended to evaluate relationships between the parent company or equity method investor and investees that may indicate that investees are not separate autonomous businesses from the parent company or equity method investor. If those conditions are not met, the specialized industry accounting principles of the Guide would not be retained in the financial statements of the parent company or equity method investor and the financial information of the investment company would be adjusted to reflect the accounting principles that would apply to the entity assuming it did not qualify as an investment company within the scope of the Guide.

***Current developments and plans.*** At its September 2003 meeting, AcSEC approved for final issuance the SOP *Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, subject to AcSEC's negative clearance and FASB clearance. At its June 15, 2004 meeting, the FASB did not object to issuance of the SOP, subject to certain revisions. Subsequent to the June 15 clearance meeting, it came to the task force's attention that certain provisions of the draft SOP may create potential unintended consequences. The task force drafted additional revisions to the SOP to address those potential unintended consequences. At its January 10, 2006 meeting, AcSEC did not object to the task force's approach in addressing those issues with an aim toward issuing the SOP without further input from AcSEC. At its September

13, 2006 meeting, the FASB did not object to issuance of the SOP, subject to certain revisions. At its November 28 and 29, 2006 meeting, AcSEC considered certain of the revisions suggested by the FASB and did not object to them. We expect to issue the SOP in the first quarter of 2007, effective for fiscal years beginning on or after December 15, 2007, with earlier application encouraged.

Staff: Joel Tanenbaum

## **OTHER AcSEC ACTIVITIES**

In August 2006, the Planning Subcommittee of AcSEC and AICPA Insurance Companies Expert Panel responded to the FASB Invitation to Comment *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*.

On September 11, 2006, the Planning Subcommittee of AcSEC cleared a comment letter prepared by the AICPA State and Local Government Expert Panel on the GASB Preliminary Views *Accounting and Financial Reporting for Derivatives*.

On November 3, 2006, AcSEC issued a comment letter on the FASB's July 6, 2006, Preliminary Views, *Conceptual Framework of Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*.

## **CURRENT AcSEC PROJECTS**

AcSEC participates in updating the following AICPA Guides. The financial reporting issues to be addressed in those projects are identified in Guide project prospectuses.

### **Airline Audit and Accounting Guide**

**Description and Background.** The AICPA Audit and Accounting Guide *Audits of Airlines* (the Airline Guide) was originally issued in 1981. The Airline Guide has not been revised or amended, other than for conforming changes, since its issuance. In 1981, the airline industry in the U.S. had recently been deregulated and the top 10 U.S. airlines carried substantially all domestic passengers. Since 1981, more than 100 airlines have filed for bankruptcy protection. And today low-cost and regional airlines, which were just in their infancy at the time the Airline Guide was originally written, enjoy considerable market share. In addition, carriers have been affected by a number of recent unprecedented crippling events. Those events include, among other things, the terrorist attacks of September 11, 2001, and resulting closure of the entire U.S. airspace for

several days thereafter. Key pieces of the strategy on which the major carriers based their businesses after airline deregulation have become risky and unworkable.

The industry events described above have resulted in substantial changes to the operations of airlines. Substantial industry changes have resulted in the emergence of many new accounting and auditing issues, as well as the need to revise the industry background section of the Airline Guide. Many of the accounting issues have led to diversity in practice.

In 2002, a task force began work on a project to revise the Airline Guide.

***Tentative conclusions.*** Some of the tentative conclusions reached by AcSEC in discussing the Airline Guide are as follows:

- *Accounting for freight in transit.* The Airline Guide should refer to EITF Issue No. 91-9, *Revenue Recognition for Freight Services in Process*, for guidance on accounting for freight in transit at the end of a reporting period and should provide additional information on the application of the acceptable methods described in that Issue to the airline industry.
- *Accounting for maintenance.* A majority of AcSEC believes that maintenance should be charged to expense as it is incurred, and would not permit the built-in overhaul method, the deferral method, or the accrual method, which are currently permitted under the existing Airline Guide. In September, 2006, the FASB issued FASB Staff Position AUG AIR-1 that amended the Airline Guide to prohibit the accrual method but permit continued use of the other three methods.
- *Accounting by the mainline carrier for capacity purchase agreements.* The Airline Guide should illustrate, using EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, the analysis of whether a mainline carrier that purchases entire flights from a regional carrier under a capacity purchase agreement should (a) net the cost of capacity purchases from regional airlines against passenger revenue or (b) report the costs and revenue associated with capacity purchases on a gross basis. AcSEC observed that, based on the guidance in EITF Issue No. 99-19, the cost of capacity purchases generally should be reported as an operating expense. AcSEC acknowledged, however, that there may be cases in which such costs should be netted against passenger revenue.
- *Accounting by regional airlines for pass-through costs under capacity purchase agreements.* The guidance on gross versus net presentation of regional airlines' pass-through costs should be based on EITF Issues No. 99-19 and 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*. Applying that guidance, the ability of a regional airline to use its discretion

in choosing a supplier would support presenting reimbursements gross, rather than netting them with the costs to which they relate.

The goal of disclosure requirements should be to provide users with information about controllable costs and revenue attributable to those costs. AcSEC expressed concern over any requirement to disclose hypothetical amounts. AcSEC also agreed that:

- Disclosure should include the nature of the arrangement.
  - Disclosure of other information, for example, the extent of the arrangement without dollar amounts, may be appropriate.
  - The Airline Guide should include examples of best disclosure practice, possibly including examples of MD&A disclosures.
  - The Airline Guide should include a reference to FASB Statement No. 57, *Related Party Disclosures*, given that many pass-through arrangements involve related parties.
  - The Airline Guide should include a reference to EITF Issue No. 99-19 with respect to disclosing transaction volume.
- 
- *Amendable labor contracts.* A liability for a retroactive or lump-sum payment under an amendable labor contract should be recognized prior to contract ratification if, in accordance with FASB Statement No. 5, a retroactive or lump-sum payment is probable and the amount is reasonably estimable.
  - *Accounting for lease return costs.* Lease return costs should be accounted for over the remaining life of the lease in accordance with EITF Issue No. 98-9, *Accounting for Contingent Rent*, when the costs become probable. The manner of satisfying lease return conditions, for example, performing maintenance or making a payment to the lessor, should not affect whether a lessee recognizes a liability for lease return costs. The measurement of the liability should be based on the lesser of (a) the payment required or (b) the cost to repair the aircraft or component. Any payment expected to be received from the lessor for returning an aircraft or component in a maintenance condition that is better than contractually required should affect only the measurement of liability.

If, however, an airline has the intent and ability to satisfy lease return conditions by swapping engines in a transaction that lacks commercial substance, it should not accrue a lease-return liability.

- *Revenue breakage.* Historically, breakage included ticket sales that remained partially or wholly unused after either the scheduled departure date or ticket expiration date. In the revised Airline Guide breakage will be redefined to include only the tickets sales remaining unused with continuing validity (i.e., the ticket has value and the customer can exchange the ticket for future travel or obtain a refund). Tickets for which an

airline has no further obligation to the customer will no longer be part of breakage, and no liability should continue to be recognized for such invalid tickets. Revenue from invalid tickets should be recognized when tickets become invalid, usually at departure date. Assuming that certain conditions are met, it is acceptable, based on SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, to recognize revenue before ticket expiration related to valid unused tickets that are expected to expire unused. However, AcSEC agreed that it would be appropriate to express a preference for waiting until the ticket expiration date prior to recognizing revenue. AcSEC also agreed, however, that, if an airline recognizes revenue from breakage prior to the ticket expiration date, it should be recognized at the departure date rather than over the period from the departure date to the expiration date.

AcSEC also generally agreed that the Airline Guide should include recommended disclosures about the company's accounting policy and method of recognizing breakage.

- *Maintenance provided under power-by-the-hour (PBTH) contracts.* A transfer of risk is by itself a basis for changing the timing of expense recognition. AcSEC agreed that if the contract transfers risk, the airline should recognize maintenance expense under the PBTH contract as opposed to following the airline's maintenance policy. In this case, there should be a presumption that the expense should be recognized at a level rate during the minimum, noncancelable term of the PBTH agreement. (However, changes in contractual rates that are tied to an index, such as the Consumer Price Index, would not need to be leveled.) That presumption could be overcome by empirical evidence that the level of service effort varies over time. If a contract does not meet risk transfer criteria, a deposit or prepaid expense method should be used, with the expense recorded as incurred when the actual maintenance event takes place.

AcSEC generally agreed on the following risk transfer criteria:

- *True-ups* - If a contract provides for a true-up based on actual costs, there is no risk transfer, regardless of the size of the true-up or how well the true-up can be estimated. In addition, rate-reset provisions that call for prospective PBTH rate adjustments that effectively serve to recover or pay back based on historical contract performance would not achieve the risk transfer objective.
- *Contract adjustment provisions* - The contract may provide for adjustment payable by either party for out-of-scope work, including foreign-object damages and adjustments to the number of hours prior to the replacement of limited life parts, but may not simply include cost true-up provisions based on the service provider's cost experiences. Contracts may contain annual or periodic escalation provisions, either tied to specified inflationary or labor indexes or specifically agreed to by the parties, so long as they do not conflict with the other risk transfer criteria.

- *Termination provisions* - The contract may contain exit provisions for either party for cause or for other performance-related factors so long as they do not result in the recovery of amounts paid or in the incurrence of any additional liability by the airline on termination based on the relationship of contract payments to actual cost experience by the service provider ("cost true-up"). However, the contract may reasonably provide for the successful satisfaction of each party's obligations under the contract that had been incurred prior to the termination and penalty provisions, if appropriate.
- *Regional airlines' accounting for maintenance revenue received under fixed-rate contracts.* If a capacity purchase agreement does not contain a lease under EITF Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease," major maintenance should not be treated as an "executory cost" within the meaning of FASB Statement No. 13, *Accounting for Leases*, and revenue received in connection with major maintenance would not be separated from revenue received for transporting passengers. Services not encompassed in the transportation of passengers, however, may need to be separated under EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." If a capacity purchase agreement does contain a lease, major maintenance should be treated as an executory cost under FASB Statement No. 13 and revenue related to maintenance should be recognized in accordance with FASB Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*.
- *Amortization lives for leasehold improvements.* Airlines execute leases with airport authorities for the use of gates, terminals, landing rights, and other operating needs. The issue is that at some airports with short term leases that do not contain renewal provisions, leasehold improvements are often amortized over a period longer than the contractual lease term, to coincide with the economic life of the asset. Given the significant differences between airport leases and traditional commercial leasing relationships contemplated by the authoritative accounting literature, AcSEC agreed that under certain circumstances described below the airlines have in-substance renewal options to remain at the airport past the stated lease term.

AcSEC generally agreed that it would be appropriate to have an amortization period in excess of the stated contractual term if the following criteria are met:

- The airline reaches a supportable legal conclusion that the rights granted to the airlines by the Federal Aviation Administration under the law legally prevent the airport authority from removing the airline from its operations upon expiration of stated contractual lease term, except in circumstances in which the facilities are underutilized, which results in the airline's ability to continue and renew the lease at its discretion;
- Failure of the airline to exercise its rights to these renewals would impose a penalty (as defined in paragraph 22(b) of FASB Statement No. 98, *Accounting*

*for Leases*) on the airline and therefore the renewal is reasonably assured (as defined in paragraph 22(a) of FASB Statement No. 98); and

- Substantially equivalent space is not available for the airline's use at another location at the airport.

If the above criteria are met, the reasonably assured renewals would be included in the lease term in determining the period over which leasehold improvements at the airport should be amortized.

- *Accounting for frequent flyer programs.* In discussing frequent flyer programs (FFPs), AcSEC agreed that the use of the incremental cost method would be inappropriate in circumstances in which (a) a significant number of paying passengers are displaced by passengers redeeming awards or (b) the value of an individual award is significant as compared with the purchase earning the award.

AcSEC discussed the point in time at which unredeemed FFP miles should be taken into account when calculating the FFP liability. AcSEC questioned the approach of accruing a liability only for those members of a FFP who have accumulated sufficient miles to obtain an award. AcSEC indicated members who have not accumulated sufficient miles for an award cannot be disregarded. An airline should consider how many are likely to reach the award level.

In connection with accounting for FFP partner relationships, AcSEC questioned the appropriateness of the net approach of accounting for these transactions and requested the Airline Task Force to remove from the Guide the illustration of its use.

***Current developments and plans.*** At its meetings starting in September 2005 and throughout 2006, AcSEC reviewed chapters 1, "The Airline Industry," 3, "Marketing, Selling, and Providing Transportation," 4, "Acquiring and Maintaining Property and Equipment," 5, "Employee Related Costs," 6, "Other Accounting Considerations," 7, "Financial Reporting and Disclosures," 8, "Aircargo Operations," and 9, "Regional Airlines," of a proposed revised Airline Guide and suggested a number of clarifications to those chapters. At its September and November 2006 meetings, AcSEC also discussed some informal, preliminary SEC staff comments made in connection with chapters 3, 4, 5, 8, and 9.

At its November 2006 meeting, AcSEC continued its discussion of certain issues related to airline intangible assets related to airport operations. FASB Statement No. 142, *Goodwill and Other Intangible Assets*, Example 6 in Appendix A, indicates that international route authorities are indefinite-lived intangible assets. At issue is the point in time when a carrier should reconsider whether indefinite-lived status is still appropriate and whether a significant change in the cash flows over the expected life of an intangible asset that contractually has an indefinite life should be considered in the evaluation of the life of the intangible.

AcSEC agreed that the effect of open-skies agreements on accounting for international route authorities (routes) will depend on whether the routes are recorded as separate assets or they are combined with related airport landing rights (slots) as part of a single asset. For routes that are recorded as assets separate from the related slots, a question is whether the route continues to meet the definition of an asset if it has become subject to an open-skies agreement. Some AcSEC members believe the answer depends on whether, after ratification of open skies, routes are granted to any airline that applies for a route or whether an airline must demonstrate that it has access to slots as a prerequisite for being granted a route. In a straw vote, AcSEC was divided on whether routes would continue to meet the definition of an asset (6 yes, 8 no – meaning 8 believe there is no asset and 6 believe there is an asset) if there is no restriction on the number of airlines that can be granted a route. AcSEC requested the Airline Task Force to obtain more information on how routes will be granted after the enactment of open skies.

AcSEC was also divided on whether the possibility of open skies should affect the indefinite-lived status of routes. AcSEC voted (8 yes, 6 no) that airlines should not anticipate ratification of open skies in the future.

AcSEC believes that, if the useful life of a route has changed from indefinite to finite, the airline should test the asset for impairment. AcSEC was uncertain, however, whether paragraphs 16 and 17 of FASB Statement No. 142 require that routes be tested for impairment separately from slots or whether routes and slots should be combined for impairment testing. AcSEC asked the Airline Task Force to consider the applicability of EITF Issue No. 02-7, “Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets,” to impairment testing when a route’s life has changed from indefinite to finite.

AcSEC indicated that, if routes and slots are recorded as separate assets, it would be unacceptable to shift value between those assets even in situations in which, upon ratification of the open skies, the value of the slots is expected to increase while the value of the routes is expected to decrease or be eliminated.

AcSEC also believes that routes that are combined with slots as part of a single asset should be evaluated for impairment once open skies are enacted, which is consistent with its conclusion on routes that are separate from slots. AcSEC agreed that airlines would not need to bifurcate routes and slots that are recorded as a single asset upon ratification of open skies.

AcSEC will continue discussing issues related to revised chapters at its future meetings.

Staff: Yelena Mishkevich and Fred Gill

## **Casino Audit and Accounting Guide:**

**Description and background.** The AICPA Audit and Accounting Guide *Audits of Casinos* (the Casino Guide) was originally issued in 1984. The Casino Guide has not been revised or amended, other than for conforming changes, since its issuance. The casino industry and its financial reporting have changed since 1984. Casinos have experienced a shift in their primary revenue source from table games to slot machines; slot machine technology has evolved to where, for example, competing casinos participate together in progressive slots; and some regulators' positions and views about jackpot liabilities have changed. Also, the industry has grown and expanded to new jurisdictions. Some of these changes have resulted in accounting and auditing issues not contemplated in the existing Casino Guide. Many of the accounting issues have led to diversity in practice. Further, diversity in practice exists in applying certain accounting standards issued since 1984.

In 2003, a task force began work on a project to revise the Casino Guide.

**Tentative conclusions.** Some of the tentative conclusions reached by AcSEC in discussing the Casino Guide are as follows:

- *Scope – transactions and entities covered.* The Casino Guide should address accounting issues of casinos, including issues arising from transactions that typically are unique to entities undertaking gambling activities. In addition, the scope of the Casino Guide should be transaction based. Therefore, to the extent that entities other than those that traditionally may have been considered casinos undertake gambling and related activities that are the same as gambling and related activities undertaken by casinos, as well as other gambling and related activities, the activities of those other entities should be subject to the guidance in the Casino Guide. To better describe the kinds of activities covered by the Casino Guide, the Guide would likely be retitled *Audits of Casinos and Other Gaming Activities* or something similar.

The FASB has on its agenda a project to address recognition of revenue and liabilities in financial statements. This Casino Guide project is not intended to address issues that may overlap with issues addressed in the FASB's project.

- *Scope – Native American entity undertaking gambling activities.* The Casino Guide should apply to entities owned by state and local governments that undertake gambling activities, such as Native American casinos. The Casino Guide should include guidance for those entities electing post-1989 FASB pronouncements as well as those not electing post-1989 FASB pronouncements. The Casino Guide should therefore have three tracks: (1) FASB entities that undertake gambling activities; (2) state and local governments electing post-1989 FASB pronouncements that undertake

gambling activities; and (3) state and local governments not electing post-1989 FASB pronouncements that undertake gambling activities.

- *Impairment of long-lived assets and restructuring charges.* The Casino Guide should reiterate the requirements of category (a) GAAP, separately identifying those that are limited to FASB entities, GASB entities, and SEC registrants. Also, the Casino Guide should include industry-specific illustrations of typical impairment and restructuring transactions and activities and how they might be reported in applying those pronouncements to entities undertaking gambling activities, such as illustrations addressing asset groupings and triggering events. Those illustrations would be intended to provide guidance for specific fact patterns though not necessarily explicit requirements or prohibitions.
- *Jackpot liability.* The Casino Guide should provide that entities undertaking gambling activities should accrue jackpot liabilities only for amounts the entity is legally obligated to pay as of the reporting date. The primary example of amounts operators are obligated to pay is the incremental portion of progressive jackpots in circumstances in which the operator is prohibited from removing the machine from the floor without transferring the incremental progressive liability to other machines or games.
- *Loan guarantees.* For state and local governments electing post-1989 FASB pronouncements and undertaking gambling activities, FASB Interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, provides guidance on accounting for guarantees and elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. The Casino Guide should provide additional guidance, perhaps through illustrations, on the application of FIN No. 45 to entities undertaking gambling activities.
- *Incentive programs.* Incentives to play should be bifurcated and characterized as either (a) marketing incentives to induce potential customers to enter into transactions or (b) loyalty programs for customers based on activities or transactions undertaken. At its September 2005 meeting AcSEC agreed that the Casino Guide should:
  - Describe current practice, including a (1) deferred revenue model and (2) model in which an entity reports the full amount of the original revenue transaction and accrues liabilities under loyalty or incentive programs for costs associated with rewarding the customers undertaking those original revenue transactions (referred to hereafter in this discussion as an *immediate revenue* model—with that term used as a placeholder).
  - Describe the basis for each model and provide that in practice the deferred revenue model is acceptable in virtually all circumstances, while the

immediate revenue model is acceptable only in certain circumstances. For example, an immediate revenue model is unacceptable in circumstances in which (a) a significant number of paying customers are being displaced by customers redeeming awards or (b) the value of an individual award is significant as compared with the purchase earning the award.

- Provide detailed guidance on applying appropriate EITF and other relevant literature, such as EITF Issue No. 01-9, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products),” to those models, including guidance applicable to cash and free play awards. Consider what disclosures, if any, should be considered in connection with loyalty programs. The scope and provisions of any guidance in these areas should continue to be coordinated with AcSEC’s project to revise the AICPA Audit and Accounting Guide *Audits of Airlines*.
- *Participation arrangements – revenue vs. expense (display)*. AcSEC asked the Task Force to consider whether participation arrangements may be leases in conformity with EITF Issue No. 01-8, “Determining Whether an Arrangement Is a Lease.” For participation arrangements that are leases, entities should follow lease accounting. For participation arrangements that are not leases, entities should consider the guidance in EITF Issue No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent.” The Casino Guide should include illustrations of typical participation arrangements and how they might be reported.

Also, the Casino Guide should note that activities of all parties undertaking participation arrangements would be subject to the provisions of the Casino Guide to the extent that those activities are within the scope of the Casino Guide. For example, a slot machine manufacturer and owner undertaking a participation arrangement with an entity undertaking gambling activities is effectively undertaking gambling activities itself and therefore would be subject to the provisions of the Casino Guide pertaining to participation arrangements.

- *Classification of complimentaries (display)*. Expenses for complimentaries should be reported at cost (no revenue should be reported as a result of providing complimentaries). In circumstances in which customers have the choice of receiving either complimentaries or free play, expenses should reported as the estimated cost of complimentaries to be provided (with free play presumed to have no cost). The expenses should be classified in the department in which they benefit, which typically is the casino department.
- *Payments or commitments to make payments to not-for-profit organizations (or other entities) in connection with obtaining the right to manage properties for third parties*. Such payments or commitments are exchange transactions, rather than contributions.

Payments made as part of efforts to acquire agreements should be expensed as incurred. Also, such payments made pursuant to an existing agreement should be capitalized and amortized over the life of the agreement, without anticipating potential renewals.

- *Gaming license and market entry costs.* Gaming licenses typically, though not in all cases, have indefinite lives. Determining the life of a license may require judgment, including considering the nature of the renewal process and additional economic sacrifices, if any, required to renew the license. License and related market entry costs incurred in anticipation of obtaining a license should be expensed as incurred. License and related market entry costs incurred after it is probable that a license will be acquired should be capitalized. In circumstances in which licenses have indefinite lives, those capitalized costs should be assessed for impairment every year. In circumstances in which the licenses have finite lives, those capitalized costs should be amortized over the life of the license. Also, the revised Casino Guide should include examples of factors that may affect the value of the license, such as a jurisdiction issuing a large number of licenses in subsequent years, thereby diluting the value of existing licenses.
- *Gaming taxes.* Gaming taxes are not income taxes. Gaming taxes paid based on graduated rates should be reported in interim periods based on the expected average rates. AcSEC also requested the Task Force to further consider the following issues to be discussed at a future AcSEC meeting:
  - Whether international convergence issues exist.
  - The effect of rate changes (other than changes based on graduated rates already in place). In particular, consider how and in what period to account for the change. AcSEC asked the Task Force to research analogous GAAP pertaining to this issue.
- *Customer credit policy.* For SEC registrants, the Casino Guide should reiterate the SEC Management Discussion and Analysis requirements pertaining to changes in customer credit policy.
- *Free cash flows.* For SEC registrants, the Casino Guide should reiterate that SEC Financial Reporting Release No. 65, *Conditions for Use of Non-GAAP Financial Measures*, provides, among other things, that public companies that disclose or release such non-GAAP financial measures include, in that disclosure or release, a presentation of the most directly comparable GAAP financial measure; a reconciliation of the disclosed non-GAAP financial measure to the most directly comparable GAAP financial measure; and a statement explaining why the entity believes that non-GAAP financial measure provides useful information to investors regarding the registrant's financial condition and results of operations.

- *Segment reporting.* AcSEC agreed to defer further discussion of this issue pending the outcome of a potential FASB FSP and EITF consensus on related issues. In the meantime, AcSEC agreed that the conforming change in the current Casino Guide should be more robust in tracking the guidance in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*.
- *Illustrative financial statements.* The Casino Guide should include illustrative financial statements for FASB casinos and for GASB casinos, including Native American casinos.

***Current developments and plans.*** At its November 2006 meeting, AcSEC reviewed and provided a number of suggestions and clarifications to the following guide chapters and applicable illustrative guidance: Chapter 2, “Gaming Overview”, Chapter 3, “Guide and Scope Applicability”, Chapter 4, “Loyalty and Incentive Programs”, Chapter X, “Guarantees,” and Appendix X, “Illustrative Guidance when Accounting for Guarantees.” The Casino task force will present additional chapters to AcSEC in the near future along with bringing back proposed revisions to chapters reviewed previously.

Staff: Renee Rampulla

## **Health Care Audit and Accounting Guide**

***Description and Background.*** The AICPA Audit and Accounting Guide *Health Care Organizations* (the HC Guide) was originally issued in 1996. Substantial industry changes have resulted in the emergence of many new accounting and auditing issues, as well as the need to revise the industry background section of the HC Guide. Many of the accounting issues have led to diversity in practice.

In 2004, a task force began work on a project to revise the HC Guide.

***Tentative conclusions.*** Some of the tentative conclusions reached by AcSEC are:

- *Charity care:*
  - Charity care does not include services provided in situations in which payments are accepted under contracts with third-party payors (such as Medicare or Medicaid) whereby such accepted payments are less than the “full” amounts billable under the provider’s rate schedule.
  - Typically the determination as to whether an individual meets the criteria for charity care should occur as soon as practicable, and before any substantial collection effort is initiated.
  - Disclosures on the level of charity care should include, at a minimum, a disclosure based on the health care organization’s *costs* of providing charity care. If other measures of the level of charity care are disclosed as well, such

as the provider's rates, additional details should be included as to the source of those measures and how they are determined.

- It is recommended that a health care organization disclose information on its various categories (individually and in total) of the broader metric of uncompensated care other than bad debts.
- *Medical malpractice.* With respect to recognition and measurement of medical malpractice and other insurance-related liabilities, and related disclosures, the HC Guide will direct health care organizations to the relevant guidance in FASB Statement No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss: an interpretation of FASB Statement No. 5*. In determining “best estimates” of accrued liabilities under FASB Statement No. 5, health care organizations should take into consideration how claims develop over time—for example, the fact that some claims require a number of years before they are settled.
- *Revenue recognition.* Currently, notably in the case of self-pay patients, there is diversity in practice such that, following paragraph 5.03 of the HC Guide, some health care organizations may record revenue and an allowance (which may be relatively large) without necessarily determining first whether collectibility is reasonably assured. At its November 15-16, 2005 meeting, AcSEC reviewed chapter 10, “Revenues, Expenses, Gains, and Losses,” of the proposed revised HC Guide and recommended that the principle that collectibility should be reasonably assured before revenue may be recognized be applied to health care organizations. In addition, those health care entities that are SEC registrants should consider revenue recognition guidelines found in SAB 104.
- *Settlements.* It is recommended that health care organizations disclose summaries of period settlement activity for significant governmental and other third-party payor payables and receivables. In so doing, health care organizations should be mindful of the disclosure requirements of SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, related to changes in estimate for settlements. At its November 2005 meeting, AcSEC agreed that disclosures proposed by the task force for settlement activity should be included in the illustrative financial statements of the revised HC Guide.
- *Loss contracts.* In determining whether a health care organization should recognize a loss when it is probable that expected health care and maintenance costs under a group of existing contracts will exceed anticipated future premiums and stop-loss insurance recoveries on those contracts, only incremental costs should be considered.

- *Prepaid health care – classification of revenue.* Under typical prepaid health care services arrangements—for example, health maintenance organizations (HMOs)—revenue earned relates to both the assumption of medical risk and the providing of administrative services. Under such arrangements, administrative services are typically an integral part of providing or arranging medical care. That is, the HMO performs administrative services in support of its primary obligation to provide or arrange medical care (rather than for another party as is the case in administrative-services-only (ASO) arrangements). Revenue relating to such administrative services should not be bifurcated from premium revenue related to the assumption of medical risk but should rather be included in premium revenue.
- *Prepaid health care – reporting of receivables and payables related to administrative-services-only (ASO) contracts.* Health care organizations should look to the terms of the contracts to determine the parties’ respective obligations and should apply FASB Interpretation No. 39 (FIN 39), *Offsetting of Amounts Related to Certain Contracts*. Under FIN 39, a right of setoff exists only if certain conditions are met, and typically those conditions are not met in situations involving more than two parties. Because a typical ASO arrangement involves three parties (the employer, the hospital or other provider of health care to employees, and the ASO organization), typically receivables and payables related to ASO contracts are reported gross.
- *Prepaid health care – capitation arrangements.* Capitation costs for a health care organization should not be reported analogous to reinsurance arrangements, that is, as premiums ceded that reduce premium revenue, but rather should be reported as an expense.
- *Gross versus net presentation of insurance claims and related insurance recoverables.* Currently, the HC Guide is scoped out of from the requirement under FIN 39 (as interpreted by EITF Issue No. 03-8, “Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity”) to, in general, not offset prepaid insurance and expected insurance recoverables against related insurance liabilities. The HC Guide currently permits offsetting, which is also current industry practice. AcSEC voted (14 to 0) to recommend to the FASB that the HC Guide be amended such that there would no longer be an exception to FIN 39 for health care organizations.
- *Income statement classification and disclosure of gains and losses from non-hedging derivatives.* AcSEC discussed “economic hedges,” that is, derivatives entered into by an entity to hedge a specific exposure but that do not meet all of the conditions for hedge accounting treatment under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. AcSEC agreed (14 to 0) that the HC Guide should recommend that a not-for-profit health care organization disclose both the amounts of gains and losses relating to economic hedges and the specific line

items (above the performance indicator) in which those gains and losses appear. AcSEC agreed (9 to 4) that the HC Guide should not provide guidance about classification of gains and losses (e.g., a realized component included in the determination of “interest expense” that facilitates determining the effectiveness of the hedge, and an unrealized component included as a mark-to-market adjustment to nonoperating income [but above the performance indicator]).

- *Accounting for transfers between unrelated not-for-profit healthcare organizations.* AcSEC agreed with the task force that equity transactions or transfers between unrelated not-for-profit healthcare organizations should be recorded as contributions at fair value with the transferor recognizing the contribution made as expense in the period made and as a decrease of assets or increase of liabilities, depending on the form of the benefits given, pursuant to paragraph 18 of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*. The transferee would record the net assets at fair value at the transfer date. AcSEC also discussed the financial statement presentation of the contributions made by not-for-profit healthcare organizations. AcSEC concluded that contributions should be presented within the performance indicator in the financial statements of the transferor. AcSEC concluded that Chapter 10 of the HC Guide should also address the financial statement presentation of contributions received.
- *Accounting for intercompany receivables when collection is doubtful.* The HC Guide Revision Task Force requested that AcSEC consider the issue of accounting for intercompany receivables when collection is doubtful, as currently there is diversity in practice in the accounting and reporting for such receivables. Currently, paragraph 11.26 of the HC Guide states that “if the receivable is not to be repaid, or if the receiving entity is perceived as unable to repay, it [write-off of intercompany receivable] may be accounted for as an equity transfer with the transferor reducing net assets and the transferee increasing net assets at the date such determination is made.” AcSEC recommended clarifying the wording in paragraph 11.26 of the HC Guide to state that accounting for write-offs of intercompany receivables as equity transfers is not optional. Similar to footnote 1 of APB Opinion No. 26, *Early Extinguishment of Debt*, paragraph 11.26 is intended to remind accountants to examine the facts and circumstances of each individual transaction to determine whether it is in substance a loss or an equity transfer. AcSEC further stated that the HC Guide should provide additional examples to assist practitioners in assessing the substance of these transactions.
- *Accounting for joint operating agreements.* The Healthcare Guide Revision Task Force requested that AcSEC consider the issue of accounting for joint operating agreements (JOAs). A JOA generally consists of two or more not-for-profit health care organizations (HCOs) entering into an agreement whereby both parties jointly operate and control certain of their hospitals or facilities while sharing the operating

results and residual interest upon dissolution based on an agreed-upon ratio or ratios. Currently there is diversity in practice in the accounting and reporting for joint operating agreements, as HCOs account for JOAs either by consolidating, under the equity method, at cost (e.g., risk sharing with a management agreement), or by using proportional consolidation. AcSEC agreed with the task force that Chapter 11 of the HC Guide should incorporate guidance from Technical Practice Aid 6400.33, *Accounting for a Joint Operating Agreement*, and include more explicit guidance to address the variance in practice that currently exists.

- *Accounting for transfers involving goodwill between for-profit healthcare organizations and not-for-profit healthcare organizations where one healthcare organization controls the other or they are under common control.* AcSEC requested that the task force expand the analysis to include other examples of transfers that may occur between for-profit healthcare organizations and not-for-profit healthcare organizations where one healthcare organization controls the other or they are under common control and relevant accounting literature that may provide guidance for other kinds of such transfers. The task force agreed to broaden the issue and present it to AcSEC at a future meeting.

***Current developments and plans.*** During 2006 AcSEC discussed the “Preface,” “Unique Considerations of Health Care Organizations,” “Basic Financial Statements,” “Cash, Cash Equivalents, and Investments,” “Derivatives,” “Net Assets,” “Property and Equipment and Other Assets,” “Patient Revenue and Related Receivables and Other Receivables,” “Financial Accounting and Reporting for Managed Care Services,” “Financial Accounting and Reporting by Continuing Care Retirement Communities,” and “Bonds” chapters of a proposed revised HC Guide. The task force will present discussion documents pertaining to revenue recognition, accounting for alternative investments, and scope and applicability to AcSEC at its January 2007 meeting. Currently, AcSEC plans to expose a significant portion of the Guide during 2007.

Staff: Zachary Donahue

## **Employee Benefit Plans Audit and Accounting Guide**

***Description and Background.*** The AICPA Audit and Accounting Guide, *Employee Benefit Plans*, was last issued in 1991. The Guide has not been revised or amended, other than for conforming changes, since then. Prior to 1991 there were two editions of the Guide. The Guide was originally issued in 1983, with a second edition issued in 1988. Since 1991 significant changes have occurred in the types of retirement plans offered by employers, the way plans are administered, and the types of investments plans are holding. Many of these changes have resulted in accounting issues not contemplated in

the existing guide.

In 2004 a task force began work on a project to revise the employee benefit plans (EBP) Guide.

***Tentative conclusions.*** Some of the tentative conclusions reached by AcSEC in discussing the Employee Benefit Plans Guide are as follows:

- *Accounting for contributions receivable for defined benefit pension plans.* Minimum contributions required should be accrued and any excess amounts would be considered a Type II subsequent event unless there was evidence of a formal commitment as of the balance sheet date. When the issue is drafted for the EBP Guide, it should be expanded to discuss all of the factors listed in paragraph 10 of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, with emphasis placed on the formal commitment.
- *Accounting for contributions receivable for defined contribution pension plans.* Additional guidance should be included in the EBP Guide discussing factors that should be reviewed in determining whether contributions should be recorded due to an obligation resulting from a formal commitment under paragraph 10 of FASB Statement No. 35, and additional information about the relationship between employees and employer as compared to defined benefit plans.
- *Accounting for contributions receivable for defined benefit health and welfare benefit plans.* A receivable from the employer should be accrued equal to the liability for employees' claims recorded prior to plan's year-end. A receivable from the employer should be accrued equal to the liability for incurred but not reported (IBNR) employee claims if as of the date of the financial statements there is a legal or contractual requirement for the employer to fund this amount.
- *Employee deferral and related matching contributions for defined contribution plans.* It would be rare that this amount would be significant and therefore this issue will not be included in the EBP Guide.
- *Accounting for excess employee contributions.* Excess employee contributions should be recorded as a liability in the year in which they were contributed to the plan (in accordance with Paragraph 3.28 of the EBP Guide) with the corresponding debit side of the entry being netted against contributions received. Additionally, disclosure thereof should be presented in the notes to the financial statements.

- *Presentation of investment income from commingled investment funds.* The EBP Guide should express two views: one that dividends and distributions should be considered investment income and shown separately from changes in fair value, the second that only dividends should be considered investment income and shown separately from changes in fair value.
- *Disclosures for limited partnerships and similar investments.* Additional disclosures should be made relating to limited partnerships and similar investments. The Guide should clarify that these disclosures apply to certain kinds of investments that are hard to value or not liquid (alternative investments). If the information for the disclosures cannot be obtained or is prohibited from being disclosed, then that should be disclosed as well. AcSEC also noted that the task force should look to the disclosures required by the FASB's fair value project.

***Current developments and plans.*** AcSEC will continue its discussions of issues at a future meeting.

Staff: Linda Delahanty

## **Real Estate Funds Chapter of Investment Companies Guide**

***Description and background.*** In connection with the anticipated issuance of the *SOP Clarification of the Scope of the Investment Companies Guide* (Scope SOP), parties representing the institutional real estate investment industry approached the AICPA to request a project that would clarify the accounting for private real estate equity funds that are ultimately required by the Scope SOP to follow the Audit and Accounting Guide *Investment Companies* (IC Guide). At present, it is generally acknowledged that the guidance in the IC Guide is insufficient to enable consistent accounting practices among real estate funds applying the IC Guide. Accordingly, AcSEC decided to develop an additional, nonauthoritative chapter of the IC Guide on real estate funds.

The chapter is expected to provide guidance on, among other things:

- The definition of a real estate investment.
- Balance sheet presentation of investments, including the applicability of a consolidation approach to the financial statement presentation.
- Income statement presentation of net investment income, including the applicability of recognizing rental revenue, expenses, or other "accrual" basis earnings in net investment income (versus the dividend income principle noted in the IC Guide).
- Accounting for third-party real estate financing.
- Other financial statement presentation and disclosure matters.

The chapter will not change existing GAAP, for example, contained in the IC Guide; it will only provide guidance on applying existing GAAP to real estate funds.

***Tentative conclusions.*** At its May 2006 meeting, AcSEC tentatively concluded that:

- The determination of whether a distribution received by an investment company is a return of capital should be based on tax basis earnings and profits.
- If an investment company holds a fee simple interest in a real estate investment, distributions representing income from that investment should be presented as a single income statement line item.

***Current developments and plans.*** AcSEC expects to discuss an initial draft of the chapter at its March 2007 meeting.

Staff: Fred Gill

## **Entities With Oil and Gas Producing Activities**

***Description and Background.*** The AICPA Audit and Accounting Guide *Audits of Entities With Oil and Gas Producing Activities* (the Oil and Gas Guide) was originally issued in 1986. The Oil and Gas Guide has not been revised or amended, other than for conforming changes, since its issuance.

Substantial industry changes have resulted in the emergence of many new accounting and auditing issues, as well as the need to revise the industry background section of the Oil and Gas Guide. In addition, new standards have been issued and other issues have been raised by the regulators that have a direct effect on the accounting for oil and gas operations. Many of the accounting issues have led to diversity in practice.

In 2004, a task force began work on a project to revise the Oil and Gas Guide.

***Tentative conclusions.*** Some of the tentative conclusions reached by AcSEC in discussing the Oil and Gas Guide are as follows:

- *May a nonpublic entity apply the full cost method in any manner other than as prescribed by the SEC (i.e., as prescribed in Regulation S-X, Rule 4-10)? In particular, must nonpublic entities apply such guidance related to the designation of cost centers?* AcSEC believes that it is preferable that nonpublic entities that apply the full cost method of accounting follow the guidance prescribed by the SEC in Rule 4-10 of Regulation S-X. Furthermore, AcSEC would like to make a broader statement regarding preferability, stating that AcSEC believes that nonpublic entities should follow the guidance in either FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, for successful efforts entities or the SEC full cost rules, as guidance for these methods is periodically updated. Additionally, AcSEC would like the Guide to mention that the entity may apply FASB

Statement No. 154, *Accounting Changes and Error Corrections*, to make the change to a preferable accounting method.

- *For entities using the full cost method of accounting, should gains or losses resulting from the settlement of asset retirement obligations be reflected in income or capitalized through application of Regulation S-X, Rule 4-10?* At a minimum, AcSEC would like the Guide to lay out the issue and provide some guidance based on what is done in practice but declined to express a preference. Based on the observations of the task force, most entities reflect gains or losses resulting from AROs as an adjustment of capitalized costs.
- *Can any sale of a property included in the amortization base qualify for reporting as a discontinued operation by an entity applying the full cost method of accounting?* When applying FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, an entity following the full cost method would determine that a component under Statement No. 144 would be an individual full cost pool. Therefore, an entity would not meet the criteria for reporting a discontinued operation, unless an entire pool was disposed of. AcSEC recommended that the Guide reflect this observation.
- *For entities using the full cost method, may costs incurred in a new cost center prior to the acquisition of a property interest or prior to determination of proved reserves remain capitalized in situations in which the company has plans for acquisition of property interests or further exploration activity?* AcSEC reached no consensus on this issue and asked that the task force to (1) more fully develop the issue summary for discussion at a future AcSEC meeting and (2) provide AcSEC with additional facts and circumstances to flesh out the capitalization approach with limitations, timing, and the appropriate disclosure requirements.

***Current developments and plans.*** AcSEC will continue its discussion at a future meeting.

Staff: Lori West

## **FUTURE AcSEC PROJECTS**

**Not-for-Profit Organizations Audit and Accounting Guide** - Staff: Joel Tanenbaum

**Property and Liability Insurance Companies Audit and Accounting Guide** - Staff: Kim Kushmerick and Julie Gould

## NON-AcSEC ACTIVITIES OF AICPA STAFF

The AICPA staff released the following new Technical Practice Aids:

- Income Tax Accounting for Contributions to Certain Nonprofit Scholarship Funding Organizations
- Accounting for Certain Liquidated Damages
- Recognition of Premium/Discount on Short Positions in Fixed-Income Securities
- Presentation of Reverse Repurchase Agreements
- Accounting treatment of offering costs incurred by investment partnerships
- Meaning of “Continually Offer Interests”

To obtain the TPAs, please visit

[http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/recent\\_tpas.htm](http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/recent_tpas.htm)

The AICPA staff also released a practice alert on FIN 48 for tax, accounting, and audit professionals. To obtain a free copy, please visit

<http://tax.aicpa.org/Resources/Professional+Standards+and+Ethics/Practice+Guide+on+Accounting+for+Uncertain+Tax+Positions+Under+FIN+48.htm>.

The AICPA staff issued the working draft TPA of *Convertible Debt, Convertible Preferred Shares, Warrants, and Other Equity-Related Financial Instruments*. To obtain a copy, please visit

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/Working+Draft+Working+Draft+of+Convertible+Debt+Convertible+Preferred+Shares+Warrants+and+Other+Equi.htm>

## UPCOMING AcSEC MEETINGS

AcSEC meetings are open to the public.

### 2007

January 9-10, 2007	NY
March 20-21, 2007	NY
May 15-16, 2007	NY (Outside location)
July 10-11, 2007	DC
September 18-19, 2007	NY (Outside location)
November 6-7, 2007	TBD

### AcSEC ON AICPA WEB SITE

Visit the Accounting Standards webpage, located on the AICPA website, at <http://www.aicpa.org/members/div/acctstd/index.htm>, to view information about AcSEC activities, including AcSEC's meeting agenda and materials, highlights of recent AcSEC meetings, and to obtain a copy of recently issued AcSEC's documents, learn about the AICPA Industry Expert Panels, review recently issued accounting technical practice aids, and find web links to accounting standard setting bodies, regulators, and other AICPA technical teams.

### COMMENTS OR SUGGESTIONS?

We welcome any comments or suggestions you may have concerning this publication. Please send them to [iportnoy@aicpa.org](mailto:iportnoy@aicpa.org), fax to 212-596-6064, or write to Irina Portnoy at AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775.

### AICPA Accounting Standards Team STAFF CONTACTS

Dan Noll, Director	<a href="mailto:dnoll@aicpa.org">dnoll@aicpa.org</a>	(212) 596-6168
Fred Gill	<a href="mailto:fgill@aicpa.org">fgill@aicpa.org</a>	(212) 596-6012
Kim Kushmerick	<a href="mailto:kkushmerick@aicpa.org">kkushmerick@aicpa.org</a>	(212) 596-6160
Myrna Parker	<a href="mailto:mparker@aicpa.org">mparker@aicpa.org</a>	(202) 434-9241
Irina Portnoy	<a href="mailto:iportnoy@aicpa.org">iportnoy@aicpa.org</a>	(212) 596-6058
Joel Tanenbaum	<a href="mailto:jtandenbaum@aicpa.org">jtandenbaum@aicpa.org</a>	(212) 596-6164

*AcSEC Update*, the newsletter of the AICPA Accounting Standards Executive Committee and the AICPA Accounting Standards Team, is published three to four times a year.

The views expressed herein are those of the authors and do not necessarily reflect the views of the American Institute of Certified Public Accountants. Official positions of the AICPA are determined through specific committee procedures, due process, and deliberations.

*Editor:* Irina Portnoy  
*Administrative Editor:* Sharon Macey