

Health Care Providers Spotlight

ASU 2011-07 — What Do the Revenue Presentation and Disclosure Changes Mean for Health Care Entities?

In This Issue:

- Background of EITF Issue 09-H (ASU 2011-07)
- Final Decisions
- Scope of the ASU
- What Do the Changes Mean for Health Care Entities?
- Thinking Ahead



The Bottom Line

The Task Force decided that current revenue recognition policies will remain the same for affected health care entities; however, presentation and disclosure requirements will change.

- The objective of EITF Issue 09-H¹ (ASU 2011-07²) is to foster greater transparency in the financial statements by requiring health care entities within the standard's scope to change their presentation of, and provide additional disclosures about, net patient revenue and the related bad-debt expense or allowance for doubtful accounts.
- For example, Issue 09-H requires that certain health care entities present bad debts associated with patient revenue in a separate line item as a deduction from patient service revenue (net of contractual allowances and discounts) on the face of the statement of operations. Entities will also now be required to provide expanded disclosures that include both qualitative and quantitative information about doubtful accounts related to patient accounts receivable.
- The updated standard applies only to health care entities that do not assess a patient's ability to pay at the time services are rendered even though they recognize significant amounts of patient service revenue. All other entities will continue to present bad-debt expense as an operating expense.
- For public entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted.

Contributing Author:

Kristen Mascis, Deloitte & Touche LLP

¹ EITF Issue No. 09-H, "Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities."

² FASB Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.

Beyond the Bottom Line

On July 25, 2011, the FASB issued ASU 2011-07, which is based on the EITF's consensus on Issue 09-H. The ASU ultimately changes the presentation and disclosure requirements for certain health care entities.

Background on EITF Issue 09-H

In early 2010, the EITF began to discuss whether collectibility must be reasonably assured before certain health care entities can recognize revenue. The health care entities in question were those that were required by law to provide patient services, regardless of their ability to collect (e.g., emergency care providers). In late 2010, after engaging in numerous discussions, examining the feedback received in comment letters, and observing the FASB's and IASB's ongoing joint project on revenue recognition, the Task Force decided that current revenue recognition policies would remain the same for such health care entities but that presentation and disclosure requirements would change.

At the time of the discussions, health care entities that did not assess a patient's ability to pay before recognizing revenue were recording patient service revenue and simultaneously booking a relatively high bad-debt provision. The bad-debt provision was classified as an operating expense in the statement of operations. In addition, such health care entities were not required to disclose sufficient information, such as major payer sources of revenue or details regarding the allowance for doubtful accounts, in their financial statements.

Final Decisions

Presentation in the Statement of Operations

After further deliberating the comment letters, as well as feedback received as a result of the FASB staff's outreach, the Task Force reached a consensus on Issue 09-H. Health care entities that are within the scope of the amendments, as described below, will be required to reclassify, in the statement of operations, the provision for bad debts related to recording revenue in connection with all patient services. This reclassification should be from an operating expense to a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations. The Task Force believes that these changes will improve current requirements and result in presentation of an amount of net patient revenue that more accurately reflects what the health care entity expects to collect.

The only bad-debt expenses deducted from net patient revenue are those incurred as a result of providing patient services. All other bad debts incurred by health care entities should still be presented in the statement of operations as an operating expense.

Expanded Disclosure Requirements

In addition to the presentation changes mentioned above, health care entities within the scope of these amendments will be required to provide enhanced disclosures about their revenue recognition policies and bad-debt assessment processes. Such health care entities will also have to identify the major payer sources of revenue, in a manner consistent with how they manage their business and credit risks. These enhanced disclosures, which should be both qualitative and quantitative, should include (by major payer source of patient service revenue):

- The policy for assessing collectibility with respect to the timing and amount of revenue (net of contractual allowances) and bad-debt expense recognized.
- Revenue (net of contractual allowances and discounts) before any provision for bad debt.
- Quantitative and qualitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable.

Health care entities that are within the scope of the amendments will be required to reclassify, in the statement of operations, the provision for bad debts related to recording revenue in connection with all patient services.

Health care entities that do not assess a patient's ability to pay before recognizing revenue at the time the service is provided are affected by this ASU.

The Task Force believes that these additional disclosure requirements will improve current GAAP because they will give financial statement users greater insight into the health care entity's net patient service revenue and the related allowance for doubtful accounts. For this reason, the EITF concluded that the presentation and disclosure requirements for public and private entities would be consistent.

Scope of the ASU

The groups of health care entities affected by this ASU are limited to those that "recognize significant amounts of patient service revenue at the time the services are rendered even though [the entities] do not assess the patient's ability to pay." Health care entities that are within the ASU's scope must record all bad debts related to providing patient services as a reduction of net patient service revenue, even if such entities have assessed their ability to collect.

This amendment applies to all bad debts related to patient service revenues. For example, if a hospital has an emergency room that, by law, is not allowed to assess a patient's ability to pay before providing service and to record revenue at the time service is rendered, all bad debts related to providing patient services at the hospital would be recorded as deductions from net patient service revenue. Such deductions would include bad debts related to coinsurance, deductibles, outpatient services, and elective procedures (i.e., not solely the bad debts associated with the emergency room activity).

Health care entities that (1) assess their ability to collect revenues before recognizing revenues or (2) do not recognize **significant** amounts of patient services revenue at the time services are rendered without considering the patient's ability to pay are outside the scope of the ASU and will continue to present their bad debts as an operating expense.

Examples of health care entities that would be outside the scope of the ASU include surgery centers or home health care providers that do not provide emergency care services and that assess a patient's ability to pay before recording revenue for services provided. However, if an entity offering such services is part of a larger entity that includes an emergency room unit, the entity would have to assess whether the "significant" amount was triggered. If so, such an entity would no longer be outside the scope of the ASU.

Since the finalization of the ASU, questions have arisen about how a reporting entity (i.e., consolidated reporting unit) that consists of both subsidiaries that assess the patient's ability to pay before recording revenue and those that do not consolidate their financial statements. Two views on such consolidation have developed on the basis of the ambiguity in the accounting guidance: (1) that the consolidated reporting unit must continue to present the stand-alone subsidiaries' applicable expenses as it would have presented them individually under the ASU or (2) that the consolidated reporting unit reevaluates significance in determining whether it is within the scope of the ASU (i.e., whether the significance threshold is met on a consolidated basis).

The AICPA is expected to issue a TPA clarifying that the presentation of bad debts at the consolidated reporting level should be a policy election. This accounting policy election will be to either (1) retain, upon consolidation, the presentation accounting policy chosen at the stand-alone subsidiary level or (2) make an entity-wide (or consolidated reporting unit) assessment of significance and report all bad debts related to patient service revenue on the basis of this assessment. The application of the disclosure requirements should be consistent with the policy that is elected, and the accounting policy should be disclosed in the notes to the financial statements.

The ASU does not define the term "significant." Health care entities should document how they determine significance and make this determination consistently.

The ASU will become effective as early as first quarter 2012 for some public entities.

What Do the Changes Mean for Health Care Entities?

The amendments will require health care entities to provide investors and financial statement users with more transparent information about revenue recognition and related bad debts. In addition, the changes will most likely increase the comparability between health care entities, which may help such entities manage their businesses. A further benefit is that there are not expected to be significant costs associated with the amendments.

However, the ASU can also be expected to result in certain challenges. For example, affected health care entities will have to ensure that the qualitative and quantitative information that the new ASU requires them to disclose is readily available through their current systems and infrastructures and, if not, will need to determine how it can be obtained. Further, health care entities should begin to consider the implications of the amendments now, since the ASU is effective in the first quarter of 2012 for some public entities.

Thinking Ahead

The ASU will be effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. For nonpublic entities, the ASU will be effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Health care entities that are within the ASU's scope and present comparative financials will be required to apply the presentation changes retrospectively to all prior periods presented. The quantitative and qualitative disclosure changes are only required for the period of adoption and subsequent reporting periods.

Contacts

If you have questions about this publication, please contact the following Deloitte industry professionals:

Paul Drogosch

AERS Partner
Deloitte LLP
+1 203 761 3100
pdrogosch@deloitte.com

Karen Van Compernelle

AERS Partner
Deloitte & Touche LLP
+1 214 840 1083
kvancompernelle@deloitte.com

Mark Albrecht

AERS Partner
Deloitte & Touche LLP
+1 213 688 6987
markalbrecht@deloitte.com

Subscriptions

Don't miss an issue! Register to receive Spotlight and other Deloitte publications by going to www.deloitte.com/us/subscriptions, choosing the Industry Interests category, and checking the boxes next to your particular interests. Publications pertaining to your selected industry (or industries), along with any other Deloitte publications or webcast invitations you choose, will be sent to you by e-mail.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy & tax.
- Corporate governance.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Risk intelligence.
- Sustainability.
- Technology.
- Transactions & business events.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join Dbriefs](#) to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

Registration is available for this upcoming *Dbriefs* webcast. Use the link below to register:

- [Conflict Minerals: Understanding the New Dodd-Frank Section 1502 Disclosure Requirements](#) (January 10, 2 p.m. (EST)).

Technical Library: The Deloitte Accounting Research Tool

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. Technical Library subscribers also receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

In addition, Technical Library subscribers have access to Deloitte Accounting Journal entries, which briefly summarize the newest developments in accounting standard setting.

For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

The Spotlight series is prepared by the National Office Accounting Standards and Communications Group of Deloitte. New issues in the series are released as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Copyright © 2012 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited.