Title: Income Statement Display of Business Interruption Insurance Recoveries

Date Discussed: November 14–15, 2001

References:
- FASB Statement No. 5, Accounting for Contingencies
- FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets
- FASB Interpretation No. 30, Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets
- FASB Concepts Statement No. 6, Elements of Financial Statements
- APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions
- AICPA Statement of Position 94-6, Risks and Uncertainties
- AICPA Statement of Position 96-1, Environmental Remediation Liabilities

ISSUE

1. During its discussion of Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001," the Task Force noted that existing authoritative literature does not specifically address the income statement classification and display of business interruption (BI) insurance recoveries.

2. Existing authoritative guidance relating to insurance recoveries includes Interpretation 30 and SOP 96-1. Interpretation 30 provides guidance on the accounting for involuntary conversions of nonmonetary assets (such as property or equipment) to monetary assets (such as insurance proceeds). That Interpretation provides broad guidance relating to the recognition, measurement, and classification of related insurance recoveries. Interpretation 30 requires recognition of a gain or loss on an involuntary conversion of a nonmonetary asset to a monetary asset that is measured as the difference
between the carrying amount of the nonmonetary asset and the amount of monetary assets received. As such, the insurance recoveries are recorded in the same financial statement line as the related loss.

3. SOP 96-1 provides guidance on the income statement display of environmental remediation costs and related recoveries (such as insurance recoveries). Paragraph 149 of that SOP states that "environmental remediation-related expenses should be reported as a component of operating income in income statements that classify items as operating or nonoperating. Credits arising from recoveries of environmental losses from other parties should be reflected in the same income statement line" (emphasis added).

4. In the case of both involuntary conversions of nonmonetary assets and recoveries of environmental losses, the insurance proceeds represent a recovery of a loss recognized in the financial statements. Both Interpretation 30 and SOP 96-1 require display of the insurance recoveries as a reduction of the recognized loss. BI insurance differs from other types of insurance coverage in that it is designed to protect the prospective earnings or profits of the insured entity. That is, BI insurance provides coverage if business operations are suspended due to the loss of use of property and equipment resulting from a covered cause of loss. BI insurance coverage generally provides for reimbursement of certain costs and losses incurred during the reasonable period required to rebuild, repair, or replace the damaged property. The types of costs and losses covered typically include:
a. Gross margin\(^1\) that was "lost" or not earned due to the suspension of normal operations
b. A portion of fixed charges and expenses in relation to that lost gross margin
c. Other expenses incurred to reduce the loss from business interruption (for example, rent of temporary facilities and equipment, use of subcontractors, and so forth).

5. The guidance in Interpretation 30 and SOP 96-1 specifically applies only to recoveries of certain types of losses and costs that have been recognized in the income statement. Issues regarding the income statement display of BI insurance recoveries arise because a portion of the recoveries represents a reimbursement for "lost margin" rather than a recovery of losses or other costs incurred.

6. The issue is how BI insurance recoveries should be displayed in the statement of operations.

**EITF DISCUSSION**

7. The Task Force reached a consensus that an entity may choose how to classify BI insurance recoveries in the statement of operations, as long as that classification is not contrary to existing generally accepted accounting principles. For example, in order to classify BI insurance recoveries as an extraordinary item, the requirements of Opinion 30 with respect to extraordinary item classification must be met. The Task Force reached a consensus that the following information should be disclosed in the notes to the financial statements in the period(s) in which BI insurance recoveries are recognized:

a. The nature of the event resulting in business interruption losses
b. The aggregate amount of BI insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are recognized.

\(^1\)In *Kohler's Dictionary for Accountants*, Sixth Edition, gross margin is defined as "the excess of sales over cost of goods sold." That definition is consistent with the one provided in *Underlying Principles of Business Interruption Insurance*, by Rick Hammond, CLU. In the context of this Issue, and consistent with the foregoing definition, gross margin does not consider all operating expenses.
classified (including amounts reported as an extraordinary item pursuant to Opinion 30).

STATUS

8. No further EITF discussion is planned.