



February 18, 2011

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Re: File reference number EITF090H2

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts – a consensus of the FASB Emerging Issues Task Force*. This letter provides our responses to the questions for respondents and other comments on the proposed ASU.

Questions for Respondents

Question 1: The amendments in this proposed Update would require a health care entity to change the presentation of its statement of operations by reclassifying the provision for bad debts from an operating expense to a reduction from revenue (net of contractual allowances and discounts). Do you agree with this conclusion? Why or why not?

The FASB and IASB have proposed a major revenue recognition standard that would require full retrospective application, which likely would require extensive analysis and costly policy and systems changes to begin collecting information years before the new standard's effective date. In light of that FASB and IASB's joint revenue recognition project, we would support interim changes to health care industry presentation and disclosure requirements only if they would improve financial reporting without requiring a health care entity to incur undue cost or effort.

As indicated in our November 9, 2010 comment letter on proposed ASU, *Disclosure about Net Revenue and Allowance for Doubtful Accounts – a consensus of the FASB Emerging Issues Task Force*, we believe that

- Requiring additional disclosures would be preferable to amending industry-specific revenue recognition requirements for health care entities at this time
- The proposed disclosures would provide financial statement users with additional information regarding a health care entity's revenues and allowance for doubtful accounts

However, we do not believe that the reclassification of the provision for bad debts as a component of revenue would improve financial reporting and, therefore, do not support the proposal to change the presentation of the provision for bad debts.

Definition of discounts

The proposed ASU would amend ASC 954-605-25-4 as follows (added text is underlined and deleted text is struck out):

The provision for contractual adjustments (that is, the difference between established rates and third-party payor payments) and discounts (that is, the difference between established rates and the amount ~~collectible~~ billable) are recognized on an accrual basis, ~~and These amounts, along with the provision for bad debts, are deducted from gross service revenue to determine net service revenue.~~

The proposal would change the definition of discounts in ASC 904-605-25-4 in a manner that appears to reflect prevalent industry practice. That is, the discount, as amended, would be the difference between established rates and the amount billable rather than the amount collectible. However, as indicated in the Summary section of the proposed ASU, diversity in practice currently exists. As a result, the amended discount definition could force an entity to change how it determines the discount amount retrospectively. For example, an entity that currently reflects collectability and customer credit risk assessments in its discount amounts might be required to calculate such amounts in accordance with prevalent industry practice, even if that change would be costly, without improving its financial reporting.

Clarification of ASC 954-605-45-4

Proposed ASC 954-605-45-4 states:

A health care entity may perform services for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered. As a result, the health care entity might record revenue along with a relatively high bad-debt provision in the period of service. Therefore, a health care entity shall present revenue (net of contractual allowances and discounts), the provision for bad debts, and the resulting net revenue less the provision for bad debts as separate line items on the face of the statement of operations. See paragraphs 954-605-55-1 through 55-2 for an Example of this presentation.

We believe the first two sentences of that paragraph imply that a relatively high bad debt provision is the result of an entity's inability, in the period of service, to determine collectability with absolute certainty. However, outside of the health care industry, revenue recognition is based on reasonable assurance, rather than certainty, of collection. Furthermore, a health care entity's relatively high bad debt provision in the period of service is likely to indicate that the collectability assessment was made but recorded as bad debt rather than as a discount to gross service revenue under ASC 954-605-25-4 (before the proposed amendments). Because the presentation requirement appears to be designed to address the conditions described in the first

two sentences, questions may arise as to whether an entity should net its bad debt provision against revenue if the entity had a policy of recording the collectability adjustment as a discount.

Therefore, if the proposed requirement to present the bad debt provision as a component of net revenue is adopted, we suggest replacing the first two sentences of proposed ASC 954-605-45-4 with the following, which is based on the first paragraph of the proposed ASU Summary section.

Health care entities may recognize revenue for which the ultimate collection of all or a certain portion of the amount billed or billable is not reasonably assured at the time the services are rendered. Additionally, because health care entities make their own judgments regarding adjustments to revenue and bad debts, those judgments are different from one another making analysis difficult for financial statement users.

Question 2: The Task Force consensus described in this proposed Update was reached in the context of discussing paragraph 954-605-25-3 relating to patient fee-for-service revenue (that is, revenue earned in transactions in which services provided are billed to patients or third-party payors). This was the issue that was initially raised to the Task Force for consideration. However, the final consensus was not limited to only patient service revenue. Accordingly, please answer the following questions relating to the scope of proposed guidance:

a. Should the requirements of the proposed amendments be applicable to all revenue that is accounted for under Topic 954 (that is, patient service revenue, premium revenue, and resident service revenue)?

We do not believe that the scope of the proposed amendments should be extended beyond patient fee-for-service revenue without a clear explanation of how the extension would improve financial reporting.

b. If the answer to 2(a) is no, what types of revenue should the proposed amendments apply to (for example, should the requirements of the proposed amendments be limited only to patient and resident service revenue)?

See our response to question 2(a).

c. Some diversified entities provide health care services as well as significant non-patient related products (such as pharmaceutical products) or services (such as billing and staffing, clinical information or education services). For such entities, should the requirements of the proposed amendments apply to all activities of the entity or only apply to the health care service revenue that is accounted for under Topic 954?

See our response to question 2(a).

Question 3: Do you anticipate the need for significant changes in the accounting systems or information gathering to implement the proposed amendments? If yes, please specify the aspect(s) of the proposal that would cause the significant change (for example, a specific disclosure or part of a disclosure requirement).

See response to question 1.

Question 4: How much time do you believe would be necessary to efficiently implement the proposed amendments?

We believe that the time an entity would require to implement the proposed amendments depends on the nature and extent of any accounting system and procedure changes that would be required for implementation.

Other comments

We offer the following drafting suggestions to clarify the proposed guidance.

ASC 954-310-50-3

We recommend that the guidance in proposed ASC 954-310-50-3 be clarified as follows:

- The text should not refer to “bad debt expense” but to “provision for bad debts,” because that item would be reported as a component of net revenue rather than as an expense.
- The portion of the introductory text that appears to require identification of the bad debt expense carried within the receivable balance and should be eliminated. Account receivable balances are already presented net of the allowance for uncollectible accounts on the balance sheet.
- Subparagraph (a) should be included in proposed ASC 954-605-50-4 because it appears to be a component of the entity’s revenue recognition policy.

Therefore, we suggest the following revisions to proposed ASC 954-310-50-3 as indicated by marked text:

~~To assist users in understanding the extent to which a health care entity's bad debt expense may be associated with receivables for which collectibility was not reasonably assured at the time revenue was recognized, a~~An entity shall disclose ~~all of the following~~ by major payor source of revenue:

~~a. Its policy for assessing the timing and amount of uncollectible revenue recognized as bad debt expense~~

~~b. A~~ a tabular reconciliation of the activity in the allowance for doubtful accounts for the period.

Major payor sources of revenue shall be identified by the entity and be consistent with how the entity manages its business (for example, assesses credit risk). For example, one entity's accounting system may classify receivables arising from deductibles and coinsurance as part of third-party receivables, another may classify deductibles and coinsurance as self-pay receivables, and another may classify deductibles and coinsurance as either third-party or self-pay receivables on the basis of which party has the primary remaining financial responsibility. See paragraphs 954-605-55-3 through 55-5 for an Example of this disclosure.

ASC 954-605-50-4

As previously indicated, subparagraph ASC 954-310-50-3(a) appears to be a component of the entity's revenue recognition policy and, therefore, should be included in ASC 954-605-50-4. In addition, we suggest that ASC 954-605-50-4 include either a cross-reference/link to ASC 954-310-50-3 guidance on identifying major payor sources of revenue or the guidance itself.

Scope of amendments to ASC 954-310 and ASC 954-605

The scope for the proposed presentation and disclosure requirements in ASC 954-310 and ASC 954-605 is currently provided in ASC 954-10-15. The scope of the amended presentation and disclosure requirements should be clarified, as necessary, based on consideration of the questions posed in the proposed ASU.

Transition

Proposed paragraph ASC 954-605-65-2 appears to be unnecessarily complex and confusing. In addition, subparagraph ASC 954-605-2(c) incorrectly refers to "comparative disclosures of pending content." We recommend simplifying and clarifying the proposed transition guidance as indicated:

The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, Health Care Entities (Topic 954):
Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning on or after [date to be inserted after exposure].
- b. An entity shall apply the pending content that links to this paragraph retrospectively, except that the disclosures requirements in the pending content that links to this paragraph shall be provided on a prospective basis from the date of adoption. ~~in the period of initial adoption, ¶~~The reporting entity is permitted but not required to provide the disclosures otherwise required by the pending content that links to this paragraph for any ~~previous~~ periods before the date of adoption presented for comparative purposes.
- c. ~~The disclosures required by the pending content that links to this paragraph shall be provided on a prospective basis from the date of adoption. In periods after initial adoption,~~

~~comparative disclosures of the pending content that links to this paragraph shall be required only for periods presented after the date of adoption.~~

We would be pleased to discuss our comments with you. If you have any questions, please contact L. Charles Evans, Partner – Accounting Principles Consulting Group, at 832.476.3614 or Charles.Evans@us.gt.com .

Sincerely,

/s/ Grant Thornton LLP