February 15, 2011

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org
File Reference No. EITF090H2

Re: Proposed Accounting Standards Update - Health Care Entities (Topic 954)
Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts.

To FASB Technical Director:


The health care sector is one of the most in demand and complex sectors in the economy. Because of the high need for the services provided by this sector, the career opportunities are exploding. This sector is one of the fastest growing sectors.

*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?*

We believe that there is no need to change the presentation of statement of operation of the health sector. Reclassifying the provision of bad debts from an operating expense to a reduction
from revenue will lead to confusion among the external users of financial statements and it will not help in solving the issue regarding the high debt provision in this sector. Net service revenue for health care sector should include all the charges that a health care entity made and expects to be collected. Hospitals neither charge nor anticipate payment for the free care and negotiated discounts, and this justifies their deduction from revenue to reach to the net service revenue. However, bad debt provision is a completely different issue. Bad debt represents service charges for which a hospital expected to collect but did not receive the payment. In addition, the bad debt expenses are calculated based on estimations and it cannot be totally accurate. Also, each entity has its own method in estimating the bad debt provision, which might affect the comparability of revenue and gross profit margin between entities in the same sector. The new proposed update might leave room for entities to exploit the bad debt provision to manipulate and manage their revenues.

This new proposed update might also lead to a misconception in calculation and representation of the gross profit of an entity. Gross profit is calculated by deducting the cost of revenue from total net revenue and tells the users of financial statements how much markup an entity receives on the goods or services it sells. This will raise some questions whether the revenue, net of bad debt expenses, will be used in the calculation of gross profit margin. If so, this will bring more complexity to the accounting field and will confuse many external users of financial information. Although the gross profit might not be readily available in all financial statements, it is easily calculated and widely used to evaluate the health care sectors’ gross profit margin.

Reporting bad debt expenses under Operating expenses after calculating gross profit will still adjust the revenue downward for this non-cash expense. At the same time, this method will help financial statement users to distinguish bad debt expense provision from contractual allowance
and discounts deductions that are have never been charged nor expected to be collected as revenue.

Allowing bad debt provision to be deducted from the revenue will not solve the issue regarding the high debt provision of the health care sector. Instead, we need to examine and improve the internal policy that hospitals follow in determining the patients that qualify for charity care. This can help reduce the bad debt provision of the health care sector. Simultaneously, it provides uniformity in presentation and disclosure of financial information to the external users of financial statements for all different sectors. Health care sector should not recognize the revenue for services provided when it is not sure that it will be collected. Instead, when there is high possibility and factual reasoning to believe that the revenue will not be collected, then, it should be recognized as charity care, which will be deducted from revenue in the statement of operations. Since the bad debt expense provision has the same meaning in all different economic sectors, then, we believe it needs to be reported in the same manner in all sectors’ statement of operations, under operating expense. This will save the users of financial statements from needless confusion.

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:
1. 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 believe that if the proposed amendments were to be applied, it should be applicable to all revenue under topic 954. The health care sector has a complex revenue cycle because of the frequent changes in legislative mandates and contracts with payers. Separating the sources of operating revenue will further increase the complexity and the cost of providing financial information.

2. 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)?

The separation of revenue sources and applying this proposed amendment to some revenue sources and not the others will complicate the preparation of the financial statement. Furthermore, separation of different sources of operational revenue source of the healthcare sector under topic 954 will require significant changes in the accounting systems and the benefit of the information provided will not justify its cost.

3. 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?

We believe that if this proposed amendment were to be applied, it should only be applied to the health care service revenue under topic 954. Because, the other services that health
care sector provides are not any different from the products and services provided by other sectors. This is why the bad debt expenses for these services and products should not be treated any differently.

*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).*

The changes required by these proposed amendments should not require significant changes in the accounting systems or information gathering. Reporting bad debt expenses as deduction from revenue instead of under operating expenses will not require a major change.

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

Depending on the availability of the information owned by the entity, the time required to efficiently implement the proposed amendments may differ. We believe that entities should be provided some time to implement this new proposal. The board should decide on a date where all entities in the health care sector adopt the new amendments at the same time. This is required for the comparability purposes of the statements of operations of different entities in the same sector.

Sincerely,

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