

FASB Emerging Issues Task Force

Issue No. 09-F

Title: Casino Base Jackpot Liabilities

Document: Issue Summary No. 1, Supplement No. 1*

Date prepared: February 22, 2010

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Dates previously discussed: November 19, 2009

Previously distributed EITF materials: Issue Summary No. 1, dated November 5, 2009

Background

1. At the November 19, 2009 EITF meeting, the Task Force reached a consensus-for-exposure that an entity should not accrue base jackpots if the entity can avoid payment because a base jackpot does not meet the definition of a liability until won.

2. A Proposed Accounting Standards Update (proposed Update) was posted to the FASB website on December 17, 2009, with a comment period that ended February 12, 2010. One comment letter was received on the proposed Update from a preparer and has previously been distributed to Task Force members and is analyzed below. At the March 18, 2010 EITF meeting, the Task Force will have the opportunity to consider the comment letter as it redeliberates the consensus-for-exposure.

*** The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

3. Constituents were specifically requested to provide comments on the following questions:

1. Do you agree that an entity should not accrue base jackpots if the entity can avoid payment? If not, why not?
2. Do you agree that the amendments in this proposed Update should be applied prospectively with a cumulative-effect adjustment reflected in retained earnings? If not, why not?

Scope

4. This Issue applies to all entities that generate revenue from gaming activities.

Summary of Comment Letter

5. The staff has identified and analyzed the more significant comments in the respondent's comment letter in the following paragraphs. While the staff believes that the Task Force considered a majority of these comments during its initial deliberation of this Issue, the staff recommends that the Task Force consider all of the comments as it redeliberates this Issue.

6. The respondent was not supportive of the accounting proposed because they believe that the entity has a constructive obligation that cannot be avoided. They believe that a going concern entity, as part of its normal operations, cannot avoid the base amount because a customer would win the entire jackpot. They stated that only in rare instances is the base jackpot not paid out. The respondent noted that on only 13 occasions (4.2 percent of the actual jackpot awarded) had the base jackpot amount not been awarded. On those occasions, the base jackpots were not awarded because the entity, a wide area progressive (WAP) operator, consolidated its machines.

7. Additionally, the respondent believes that the proposed Update is attempting to apply the same accounting principles to both gaming entities and WAP operators in situations in which the gaming regulations specify the accounting treatment for WAP operators. The respondent stated that the Nevada Gaming Commission Statutes specify that a WAP operator must record on its balance sheet the base amount of each progressive payoff schedule when a machine is first exposed for play and subsequent to each payoff.

8. Additionally, the respondent believes that the base jackpot should be recognized as an expense over the period of play expected to precede payout because it will result in less volatility in earnings as compared to the proposed Update.

9. The respondent also commented on the AICPA's proposed guide for the gaming industry relating to lease payments charged to customers for the WAP gaming machines and WAP systems. Since that issue is outside the scope of this Issue, the staff has provided their comment to the Accounting Standards Executive Committee (AcSEC) for its consideration.

Staff Analysis and Recommendation

10. The staff notes that the Task Force previously considered the comment received about whether to require accrual of base jackpot liabilities if the obligation can be avoided prior to the jackpot being won. During its deliberations, some Task Force members observed that there are relatively few situations under U.S. GAAP in which accrual of a liability prior to the occurrence of an obligating event is required. Those Task Force members considered the payment of the jackpot to be similar to other operating expenses that are not accrued until they occur.

11. Based on the staff's analysis of the Nevada Gaming Commission Statutes, which included outreach to industry experts, the staff believes that the regulation does not prescribe financial statement accounting for casinos or WAP operators. Rather, the regulation specifies that an operator must maintain a record of the base jackpot amount as an audit trail when the operator lowers the amount in the system to avoid or reduce payment to the winning patron. Additionally, the staff notes that the regulation does not include the phrase "on its balance sheet" as noted in the comment letter by the respondent. The staff also notes that depending on the regulatory environment, a WAP operator's timing for the accrual of a base jackpot may differ from a casino's because the WAP operator may incur an obligation as play occurs, in which case the liability would be accrued similar to an incremental jackpot. That is because part of the revenue a WAP operator receives from participating casinos is meant to fund the jackpot. Accordingly, the staff believes that the principle applies equally well to WAP operators and that an evaluation of the entity's facts and circumstances would need to be made to determine when an obligation has been incurred. The staff does not believe that any additional information was obtained from the

respondent's comments that was not already considered during the Task Force's deliberations on this Issue or that would warrant a change to the previous decisions.

Question 1 – Does the Task Force wish to affirm its consensus-for-exposure that entities should accrue base jackpots at the time the entity has the obligation to pay the jackpot?

Other Comments

12. The staff received the following informal comments questioning:

- a. Whether the proposed Update should include both base jackpots and incremental amounts in a progressive jackpot because the principle equally applies to both and the Codification does not provide guidance relating to incremental amounts in a progressive jackpot
- b. The accounting treatment for the base jackpot liabilities if the entity cannot avoid payment of the jackpot.

13. The timing of the accrual for base and incremental jackpots generally differs because gaming entities are required to fund incremental jackpots and incur the obligation as play occurs. However, the staff agrees that the principle equally applies to both base jackpots and incremental amounts in progressive jackpots in that the timing of accrual for the jackpot liability is when an operator has an obligation to pay. The staff recommends that this clarification should be made and can be accomplished by removing the word “base” as highlighted in paragraph 924-605-25-2 of the marked proposed Update in Appendix A. Additionally, the staff has clarified the proposed Update to provide some context relating to the Task Force discussion.

14. With respect to whether to clarify the guidance for situations in which payment of a base jackpot cannot be avoided when a machine is put into play, the staff notes that the Task Force considered at its November 2009 meeting whether guidance was needed for those situations. Additional guidance was determined not to be necessary because the Task Force's understanding is that those situations are limited. Additionally, the staff believes that the proposed Update provides relevant guidance for an entity to determine the timing of an accrual event (that is, when it has a liability) and that additional clarification is not necessary. While not common, if a

situation arises in which an entity cannot avoid payment of the base jackpot when the machine is put into play, the entity would need to assess whether those facts and circumstances result in the incurrence of a liability. If the entity believes that a liability has been incurred prior to the jackpot being won, then the timing of the accrual would be when the entity has an obligation. Additionally, in the less common circumstances in which the entity cannot avoid the obligation when the machine is put into play, the staff believes that the entity may have a liability at the time the machine is put into play.

Question 1 – Does the Task Force agree with the staff recommendation for revising the language of the principle so that it applies to all jackpots?

Question 2 - Does the Task Force agree with the staff recommendation that additional guidance is not needed for when an entity cannot avoid payment?

Transition Method, Transition Disclosures, and Effective Date

15. The respondent was supportive of the consensus-for-exposure to apply the provisions of the proposed Update through a prospective approach with a cumulative-effect adjustment reflected in retained earnings.

Draft Amendments to the FASB Accounting Standards Codification™

The highlighted sections of this draft represent changes to the Proposed Update which was exposed on December 17, 2009. These changes are in response to several of the staff recommendations included in this Issue Summary Supplement.

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2 and 3. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Topic 924

2. Amend paragraph 924-605-20, with a link to transition paragraph 924-605-65-1, as follows:

~~Base Jackpot: The fixed, minimum amount of a slot machine payout for a specific combination.~~

~~Slot Machine: A type of mechanical or electrical apparatus used in connection with gaming.~~

~~Win: The net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses. Also called gross gaming revenue.~~

3. Amend paragraph 924-605-25-2, with a link to transition paragraph 924-605-65-1, as follows:

Entertainment—Casinos—Revenue Recognition

Recognition

~~924-605-25-2 An entity shall not accrue a **base jackpot** **Base jackpots** if payment of the jackpot can be avoided (for example, by removing the slot machine from play). ~~shall be charged to revenue ratably over the period of play expected to precede payout; however, if immaterial, they~~ An entity shall charge a **base jackpot** **base jackpots** shall be charged to revenue at the time the entity has the obligation to pay the jackpot, regardless of the manner of payment (for example, whether as a jackpot or as a raffle upon removing the slot machine from play). ~~when established. Any portion of the base jackpot not charged to revenue when the jackpot is paid shall be charged to revenue at that time.~~~~

4. Add paragraph 924-605-65-1 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2010-XX,
*Entertainment—Casinos (Topic 924): Casino Jackpot Liabilities***

924-605-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, *Entertainment—Casinos (Topic 924): Casino Jackpot Liabilities*:

- a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2010.
- b. An entity shall apply the pending content that links to this paragraph by recording a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The cumulative effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of position immediately after initial application of the pending content that links to this paragraph.
- c. The disclosures in paragraphs 250-10-50-1 through 50-3 shall be provided in the period an entity adopts the pending content that links to this paragraph.

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this proposed Update.