

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2010-16

April 2010

Entertainment—Casinos (Topic 924)

Accruals for Casino Jackpot Liabilities

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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CONTENTS

	Page Numbers
Summary	1–2
Amendments to the <i>FASB Accounting Standards Codification</i> ™	3–5
Background Information and Basis for Conclusions	6–7
Amendments to the XBRL Taxonomy	8

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of this Update is to address diversity in practice in the accounting for casino base jackpot liabilities. Specifically, it addresses diversity in practice regarding whether an entity accrues liabilities for a base jackpot before it is won if the entity is not required to award the base jackpot. Some entities do not accrue liabilities for a base jackpot before it is won because they could avoid the payment. Other entities accrue liabilities for a base jackpot ratably over the period of play expected to precede payout.

Who Is Affected by the Amendments in This Update?

Any entity that generates revenue from gaming activities that involve base jackpots is affected by the amendments in this Update.

What Are the Main Provisions?

Accounting Guidance

The amendments in this Update clarify that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can avoid paying that jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base and progressive jackpots.

Disclosures

The amendments in this Update do not expand the disclosures currently required by U.S. generally accepted accounting principles.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

As a result of the amendments in this Update, an entity will no longer accrue a base jackpot if the entity is able to avoid payment. This guidance will improve current GAAP by eliminating diversity in practice. The amendments in this Update apply to both base jackpots and the incremental portion of progressive

jackpots; however, the amendments are expected to only affect the accounting for base jackpots because the guidance uses the same principle that was previously applied to the incremental portion of progressive jackpots.

When Will the Amendments Be Effective?

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments should be applied by recording a cumulative-effect adjustment to opening retained earnings in 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 amendments in this Update and the amounts recognized in the statement of financial position at initial application of those amendments.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not provide any specific guidance on the accounting for gaming revenues.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. 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 Subtopic 924-605

2. 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 **Base jackpots** shall be charged to revenue ratably over the period of play expected to precede payout; however, if immaterial, they~~ An entity shall accrue a liability and charge a jackpot (or a portion thereof as applicable) shall be charged to revenue at the time the entity has the obligation to pay the jackpot (or a portion thereof as applicable), regardless of the manner of payment. See paragraphs 924-605-55-1 through 55-2 for implementation guidance. 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.

3. Add paragraphs 924-605-55-1 through 55-2, with a link to transition paragraph 924-605-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

924-605-55-1 The implementation guidance in this paragraph and the following paragraph addresses the application of paragraph 924-605-25-2. Some slot machines or other games may contain **base jackpots**. Depending on the applicable gaming regulations, an entity may be able to avoid the payment of a

base jackpot, for example, by removing the machine from play. In accordance with the guidance in paragraph 924-605-25-2, no liability associated with the base jackpot is recognized in such cases until the entity has the obligation to pay the base jackpot. That is the case even if the entity has no intention of removing the machine from play and expects the base jackpot to ultimately be won.

924-605-55-2 This implementation guidance addresses the application of paragraph 924-605-25-2. Some slot machines or other gaming machines include progressive jackpots. Entities in many gaming jurisdictions cannot avoid payment of the portion of the progressive jackpot that is incremental to the base jackpot because the gaming regulators consider the incremental portion of the jackpot to be funded by customers and required to be paid out (whether as a jackpot or through other means, such as a raffle). Paragraph 924-605-25-2 requires that, in such cases, the incremental portion of the jackpot be accrued as a liability at the time of funding (play) by its customers.

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

> Transition Related to Accounting Standards Update No. 2010-16, Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities

924-605-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-16, Entertainment—Casinos (Topic 924): Accruals for 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 opening retained earnings as of the beginning of the period of adoption. The entity shall calculate the cumulative-effect adjustment as the difference between the following amounts:
 1. The amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph
 2. The amounts recognized in the statement of position immediately after initial application of the pending content that links to this paragraph.
- c. Earlier application is permitted. If an entity elects early application and the period of adoption is not the first reporting period of the entity's fiscal year, the entity shall apply the pending content that links to this paragraph retrospectively from the beginning of its fiscal year.
- d. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period that it adopts the pending content that links to this paragraph.

5. Add paragraph 924-605-00-1 as follows:

924-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
924-605-25-2	Amended	2010-16	04/26/2010
924-605-55-1	Added	2010-16	04/26/2010
924-605-55-2	Added	2010-16	04/26/2010
924-605-65-1	Added	2010-16	04/26/2010

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force consensus when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information and Conclusions

BC2. EITF Issue No. 09-F, "Casino Base Jackpot Liabilities," was addressed because of diversity in practice about whether casinos accrue for a base jackpot before the jackpot is won. Some entities do not accrue liabilities for a base jackpot before it is won because they are able to avoid payment of the jackpot. Other entities accrue liabilities for a base jackpot ratably over the period of play expected to precede payout.

BC3. At the November 19, 2009 EITF meeting, the Task Force reached a consensus-for-exposure on Issue 09-F. A proposed Accounting Standards Update was issued on December 17, 2009, with a comment period that ended on February 12, 2010. Two comment letters were received from one respondent to the proposed Update. The respondent did not support the accounting proposed because, in the respondent's view, the entity has a constructive obligation that cannot be avoided. The respondent indicated that a going concern entity, as part of its normal operations, cannot avoid the base amount because a customer would win the entire jackpot. The Task Force believes that it had previously considered the comments raised by this respondent. Therefore, the Task Force concluded that accruing the jackpot when the entity has an obligation is consistent with the conceptual framework for determining when a liability should be recognized.

BC4. The amendments in the proposed Update addressed the accounting for base jackpots only; however, the Task Force decided to clarify that the guidance also applies to the incremental portion of a progressive jackpot. The Task Force believes that the principle applies equally to both base jackpots and incremental amounts of progressive jackpots because the recognition of a jackpot liability should occur in both situations when the operator has an obligation to pay.

Effective Date and Transition

BC5. The Task Force decided that the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2010, with earlier application permitted. An entity should apply the guidance with a cumulative-effect adjustment recorded in retained earnings in the period of adoption. The Task Force does not expect entities to need a significant amount of time to implement the amendments in this Update.

Benefits and Costs

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. The Task Force believes that the amendments in this Update will eliminate diversity in practice. The Task Force does not expect entities to incur significant costs to implement the amendments in this Update, because the information needed to apply the guidance should be readily available.

Amendments to the XBRL Taxonomy

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