

EITF Flash

Audit and Enterprise Risk Services

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This issue of *EITF Flash* reports on the March 16, 2006, meeting of the Emerging Issues Task Force (EITF). Each issue of *EITF Flash* is published within a day of the meeting, and enables readers to spot relevant topics and to understand quickly the meeting's outcome. Deloitte & Touche LLP's *EITF Roundup*, published within a week of the EITF meeting, will provide more in-depth information on each of the issues.

EITF consensuses will be exposed for a 30-day comment period and are not final until ratified by the Financial Accounting Standards Board (FASB). Official EITF minutes and EITF Issue Summaries, distributed to the Task Force prior to the meeting, are posted to the Deloitte Accounting Research Tool Web site and the FASB Web site.

Issue 05-1 **Accounting for the Conversion of an Instrument That Becomes Convertible Upon the Issuer's Exercise of a Call Option**

STATUS: Final Consensus Reached

AFFECTS: Issuers of many contingently convertible debt instruments and certain other instruments that are not currently convertible pursuant to their terms. Upon the issuer's exercise of a call option, these instruments become convertible resulting in the issuance of equity securities in accordance with the original terms of the instrument.

SUMMARY: The EITF reached a consensus to account for the call option and the resulting equity securities issued akin to a conversion, rather than a debt extinguishment (i.e., no gain or loss); provided that the debt instrument, **at issuance**, contains a substantive conversion feature. The transaction, otherwise, should be recorded as a debt extinguishment (EITF Issue Summary: View (A)).

EFFECTIVE: The consensus will be effective for all conversions within the scope of the Issue that result from the exercise of call options that occur after the date the Board ratifies the consensus.

NEXT STEPS: The consensus will be exposed for a 30-day comment period. Final Board ratification is expected in June 2006.

Issue 06-1 **Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Specialized Equipment Necessary for an End-Customer to Receive Service From the Service Provider**

STATUS: No Decision Reached

AFFECTS: Specialized service providers such as certain cell phone or satellite media companies. Affected entities are those that give consideration to manufacturers or resellers of specialized equipment, needed to obtain the service, in order to reduce the price of the equipment to an end user-customer. For transactions within the Issue's scope, the service provider does not purchase or directly take title of the equipment, or sell the equipment directly to the customer.

The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by the National Office Accounting Standards and Communications Group of Deloitte & Touche LLP ("Deloitte & Touche"). Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately two weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

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SUMMARY: The EITF could not agree on whether the consideration, as described above, should be evaluated as if it were within the scope of EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

EFFECTIVE: Not yet discussed.

NEXT STEPS: The EITF requested that the FASB staff develop an accounting model that, under specified circumstances, would treat the consideration as a reduction of the service provider's revenue.

Issue 06-2 **Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, *Accounting for Compensated Absences***

STATUS: Final Consensus Reached

AFFECTS: Entities, such as some high-tech companies that provide employees with a compensated absence under a sabbatical or other similar benefit arrangements. The EITF considered benefit arrangements that require completion of a service period before the employee is entitled to the benefit.

SUMMARY: The EITF reached a consensus that these benefit arrangements should be accrued over the required service period (EITF Issue Summary: View (A)).

EFFECTIVE: Effective for the first annual reporting period beginning after December 15, 2006, entities should recognize the consensus as a change in accounting principle through retrospective application to all prior periods.

NEXT STEPS: The consensus will be exposed for a 30-day comment period. Final Board ratification is expected in June 2006.

Issue 06-3 **How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross Versus Net Presentation)**

STATUS: Final Consensus Reached

AFFECTS: Entities with taxes that are externally imposed on revenue producing transactions between a seller and a customer (EITF Issue Summary: Issue 1, View (B)). Thus, virtually all retailers are affected as well as other entities that have sales, value added, use, and excise taxes assessed at the point of sale.

SUMMARY: The EITF reached a consensus that these entities may adopt a policy of presenting taxes in the income statement on either a gross or net basis. If taxes are significant an entity should disclose its policy of presenting taxes and the amounts of taxes that are recognized on a gross basis (EITF Issue Summary: Issue 2, View (D)).

EFFECTIVE: The consensus is effective for periods beginning after December 15, 2006.

NEXT STEPS: The consensus will be exposed for a 30-day comment period. Final Board ratification is expected in June 2006.

Issue 06-4 **Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements**

STATUS: No Decision Reached

AFFECTS: Entities with endorsement split-dollar life insurance policies that provide a specified benefit to an employee and are not limited to the employee's active service period within that entity. Certain COLI or BOLI ("company-owned life insurance" or "bank-owned life insurance") policies would be affected.

SUMMARY: The EITF was divided in its views on whether the purchase of the endorsement split-dollar life insurance policy effectively settles the liability for future benefits.

EFFECTIVE: Not yet discussed.

NEXT STEPS: The EITF will debate the Issue further at the June meeting.

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