

Interpretation of the Emerging Accounting Issues Working Group**INT 02-17: EITF 01-13: Income Statement Display of Business Interruption Insurance Recoveries****ISSUE NULLIFIED BY SSAP NO. 24****INT 02-17 Dates Discussed**

June 9, 2002; September 10, 2002

INT 02-17 References

SSAP No. 24—Discontinued Operations and Extraordinary Items (SSAP No. 24)

INT 02-17 Issue

1. During the discussion of *EITF 01-10, Accounting for the Impact of the Terrorist Attacks of September 11, 2001*, the FASB EITF noted that existing authoritative literature does not specifically address the income statement classification and display of business interruption (BI) insurance recoveries.

2. Existing authoritative GAAP guidance relating to insurance recoveries includes *FASB Interpretation No. 30, Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets* (FIN 30) and *AICPA Statement of Position 96-1, Environmental Remediation Liabilities* (SOP 96-1). FIN 30 provides guidance on the accounting for involuntary conversions of nonmonetary assets (such as property or equipment) to monetary assets (such as insurance proceeds). That Interpretation provides broad guidance relating to the recognition, measurement, and classification of related insurance recoveries. FIN 30 requires recognition of a gain or loss on an involuntary conversion of a nonmonetary asset to a monetary asset that is measured as the difference between the carrying amount of the nonmonetary asset and the amount of monetary assets received. As such, the insurance recoveries are recorded in the same financial statement line as the related loss.

3. SOP 96-1 provides guidance on the income statement display of environmental remediation costs and related recoveries (such as insurance recoveries). Paragraph 149 of that SOP states that "environmental remediation-related expenses should be reported as a component of operating income in income statements that classify items as operating or nonoperating. Credits arising from recoveries of environmental losses from other parties should be reflected in the same income statement line" (emphasis added).

4. In the case of both involuntary conversions of nonmonetary assets and recoveries of environmental losses, the insurance proceeds represent a recovery of a loss recognized in the financial statements. Both FIN 30 and SOP 96-1 require display of the insurance recoveries as a reduction of the recognized loss. BI insurance differs from other types of insurance coverage in that it is designed to protect the prospective earnings or profits of the insured entity. That is, BI insurance provides coverage if business operations are suspended due to the loss of use of property and equipment resulting from a covered cause of loss. BI insurance coverage generally provides for reimbursement of certain costs and losses incurred during the reasonable period required to rebuild, repair, or replace the damaged property. The types of costs and losses covered typically include:

- a. Gross margin that was "lost" or not earned due to the suspension of normal operations
- b. A portion of fixed charges and expenses in relation to that lost gross margin
- c. Other expenses incurred to reduce the loss from business interruption (for example, rent of temporary facilities and equipment, use of subcontractors, and so forth).

5. The guidance in FIN 30 and SOP 96-1 specifically applies only to recoveries of certain types of losses and costs that have been recognized in the income statement. Issues regarding the income statement display of BI insurance recoveries arise because a portion of the recoveries represents a reimbursement for "lost margin" rather than a recovery of losses or other costs incurred.

6. The issue is how BI insurance recoveries should be displayed in the statement of operations.

INT 02-17 Discussion

7. The working group adopted the consensus positions of *EITF 01-13, Income Statement Display of Business Interruption Insurance Recoveries* with certain modifications for GAAP references as follows:

- a. An entity may choose how to classify BI insurance recoveries in the statement of operations, as long as that classification is not contrary to existing statutory accounting principles. The following information should be disclosed in the notes to the financial statements in the period(s) in which BI insurance recoveries are recognized:
 - i. The nature of the event resulting in business interruption losses
 - ii. The aggregate amount of BI insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts defined as an extraordinary item pursuant to SSAP No. 24).

INT 02-17 Status

8. No further discussion planned.