



March 8, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update—Revenue Recognition (Topic 605): *Revenue from Contracts with Customers*

Dear FASB Members:

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (the Boards) initiated a joint project, aimed at clarifying the principles for recognizing revenue and developing a common revenue standard for US GAAP and IFRS. We understand that the Boards plan for the new standard to replace existing revenue standards (and a substantial amount of related general practice and specific industry implementation guidance), and that the Boards began redeliberations in July 2012 on the Revenue Recognition (Topic 605) Exposure Draft (ED), *Revenue from Contracts with Customers*, to address issues identified by constituents in comment letters. We also understand that at one of the more recent deliberations, the Boards tentatively decided that the effects of customer credit risk would be presented as a separate line item in operating expense rather than adjacent to revenue. This would represent a significant change from how the timeshare industry currently presents and accounts for credit risk. We are concerned not only about the impact of this change on presentation with respect to uncollectibility but also the unintended consequences on our inventory and cost of sales model, as we currently relieve inventory and recognize costs of sales related to timesharing interests using a relative sales value method of accounting that is specific to our industry. We are also aware that the FASB has proposed a single, principles-based model to record credit losses on financial instruments and are uncertain about the impacts that this model would have on the current industry practices.

We have previously stated our concerns with the ED in our letter dated March 12, 2012, and through our participation in a FASB outreach session on April 12, 2012. In this letter, we would like to provide additional comments with respect to the ED in connection with recent FASB deliberations and share our concerns with FASB members.

I. Background

The American Resort Development Association (ARDA) is the Washington, D.C.-based trade association representing the vacation ownership and resort development industries (timeshare industry). ARDA has almost 1,000 corporate members, ranging from privately held firms to publicly traded corporations, with extensive experience in shared ownership interests in leisure real estate. The membership also includes timeshare owner associations (HOAs), resort management companies, industry vendors, suppliers, and consultants—as well as timeshare owners, through the ARDA Resort Owners Coalition (ARDA-ROC).

The timeshare industry in the United States is a robust segment of the hospitality industry. With more than 1,500 resorts and approximately 250,000 units in existence, approximately 8.1 million U.S. households owned one or more shared vacation ownership products in 2011. Annual timeshare sales volume peaked around 2007 at over \$10.6 billion and was \$6.5 billion in 2011. The economic impact of

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the industry is widespread, with an estimated \$69.5 billion in spending in 2011; 493,015 full- and part-time jobs and more than \$23 billion in salaries, wages, and related income; and more than \$7.7 billion in tax revenue.

While we appreciate and fully support the efforts of the FASB to provide industry-wide guidelines for revenue recognition, we have concerns regarding certain aspects of the ED as they may impact our specific relative sales value method of relieving inventory and cost of sales, our reporting of net revenues, and our recognition of losses from credit loss.

The timeshare industry has certain characteristics that affect the evaluation of financial performance. Most sales of timesharing intervals are to retail consumers, who often choose to use seller-provided financing. Although certain financial institutions will participate in the securitization or hypothecation of portfolios of timesharing receivables, financial institutions typically will not finance the purchase of individual timesharing intervals. Therefore, a majority of the sales price is often financed by the timeshare seller through a promissory note (generally, with a term of five to ten years), signed by the buyer. The promissory note is typically a recourse note secured by the timesharing interval. Delinquency and default rates on promissory notes vary among individual timesharing companies and tend to fluctuate in line with the general state of the economy. When a timeshare owner defaults on a loan secured by an interval, it is typically not cost-effective for a timeshare seller to pursue buyers for collection after a certain point due to the fact that the timeshare seller can repossess the timesharing interval and resell the repossessed interval for the same price or perhaps even a higher price. The incremental cost associated with the resell is typically limited to the sales effort and not to refurbish or enhance the interval prior to resale. This economic phenomenon of reposing an interval and reselling without any reduction in the sales price is limited to the timesharing industry, which was part of the rationale when the SOP was developed as discussed in its basis for conclusions (see appendix D). Furthermore, the relative sales value method developed in the SOP contemplates the fungible nature of timeshare and includes coordinated adjustments to revenue, inventory, and costs of sales to capture the economics.

Specific accounting for real estate timesharing transactions was established in relatively recent accounting guidance through the AICPA's issuance of Statement of Position (SOP) 04-2, *Accounting for Real Estate Time-sharing Transactions*, as well as the FASB's related issuance of Statement No. 152, *Accounting for Real Estate Timesharing Transactions*, both of which have been codified in ASC 978, *Real Estate Time-sharing Activities*. The adoption of the SOP and related FASB Statement resulted in a significant change in accounting for industry participants as it addressed the diversity in practice caused by a lack of guidance and the varied and numerous structures that timesharing arrangements have assumed. Among other topics and in addition to clarifying certain aspects regarding revenue recognition, the SOP specifically addressed the accounting for uncollectibility and the accounting for relieving inventory and recognizing cost of sales.

II. Impacts of Recent Deliberations on Existing Guidance

Our major areas of concern with the ED and the recent deliberations are set forth below:

Existing timeshare accounting guidance requires revenue to be reduced by estimated future losses, the reporting of net revenues after the provision for loan losses, and ignores in the determination of credit loss any value attributable to the collateral to be acquired in the event of foreclosure.

With regard to the presentation of credit losses for notes receivable from customers generated in connection with the sale of timesharing intervals, ASC 978-310-30-2 states that "an estimate of **uncollectibility** that, from a historical and statistical perspective, is expected to occur shall be recorded as

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a reduction of sales revenue at the time that profit is recognized on a timesharing sale recorded under the full accrual or percentage-of-completion method. That estimate shall incorporate all forms of uncollectibility (for example, note cancellations and collection programs).” Recent FASB deliberations concluded that credit loss will be presented as an operating expense, which is contrary to the guidance in ASC 978. It is unclear if the FASB’s tentative conclusions will require a change in classification for timesharing companies.

With regard to the consideration of the value of timesharing intervals recovered, or expected to be recovered, in connection with foreclosure, ASC 978-310-35-5 states the following: “Once an initial timesharing sale transaction has been recorded (which includes a reduction of recognized revenue for estimated uncollectibles), accounting for the allowance for uncollectibles follows similar valuation principles as any receivable, except that **there is no bad debt expense**. Each reporting period and at least quarterly a seller evaluates its receivables, estimates the amount it expects to ultimately collect, and evaluates the adequacy of its allowance pursuant to Section 310-10-35. The allowance is then adjusted, with a corresponding adjustment to current-period revenue through the estimated uncollectibles account, which is a contra-revenue account. A corresponding adjustment is also made to cost of sales and inventory.” As a result, there is no entry to record revenue, cost of sales, or inventory upon reacquisition of a timesharing interval through foreclosure as such amount was previously considered in applying the relative sales value method of accounting.

If the current guidance is changed, it is unclear how the ED on Revenue Recognition or if the Update on Financial Instruments—Credit Risk will require that timesharing companies consider the fair value of the recovered timeshare in the determination of credit losses, and if so, how such change will be incorporated in ASC 978. We further believe that if ASC 978 is amended to eliminate the concept of adjusting inventory and costs of sales for estimated losses and recovered timeshares, that diversity in practice will exist when determining the fair value of the recovered or recoverable timesharing interval. This was the case prior to the issuance of the SOP and one of the main reasons that there was a need for specific guidance.

Existing accounting guidance requires that Companies use the relative sales value in accounting for its inventory and cost of sales. Net revenue is used in calculating relative sales value.

With regard to the relative sales value method of relieving inventory costs and recognizing such costs for the sale of timesharing intervals, ASC 978-310-30-2 states the following: “Under the relative sales value method (see paragraph 978-330-35-1), a corresponding adjustment is made to cost of sales and inventory, through the application of the cost-of-sales percentage, to reflect the reduction of revenue for estimated uncollectibles.” Furthermore, ASC 978-330-35 states that “the estimate of total revenue (actual to-date plus expected future revenue) shall incorporate factors such as incurred or **estimated uncollectibles**, changes in sales prices or sales mix, repossession of intervals that the seller may or may not be able to resell, effects of upgrade programs, and past or expected sales incentives to sell slow-moving inventory units”. It is unclear if the FASB’s conclusions with respect to credit losses will require timesharing companies to continue to consider estimated uncollectibles in the calculation of relative sales value in light of their decision to require credit losses to be presented as an operating expense.

In summary, as used in the SOP, the term uncollectibles should be interpreted broadly to include all situations in which, as a result of credit issues, a timeshare seller collects less than 100 percent of the contractual cash payments of a note receivable. An estimate of uncollectibility that, from a historical and statistical perspective, is expected to occur should be recorded as a reduction of revenue at the time that profit is recognized on a timesharing sale recorded under the full accrual or percentage-of-completion method. Subsequent changes in estimated uncollectibles should be recorded as an adjustment to estimated

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uncollectibles and thereby as an adjustment to revenue. Under the relative sales value method, the seller effectively does not record revenue, cost of sales, or inventory relief for amounts not expected to be collected. There generally is no accounting effect on inventory when, as expected, a timeshare is repossessed or otherwise reacquired.

We have included a summary of the potential issues described above in tabular format below:

Area	Current GAAP	Proposed GAAP
Revenue from sale of vacation ownership products presentation on face of income statement	An estimate of uncollectibility that from a historical and statistical perspective is expected to occur is recorded as a reduction of sales revenue at the time the profit is recognized on a timesharing sale.	Recent deliberations have concluded that credit losses will be presented as an operating expense. It appears that the tentative conclusions will revise current practice for the industry under ASC 978.
Value attributed to foreclosed/revoked inventory in determining allowance	A corresponding adjustment to the estimate of uncollectibility is made to cost of sales and inventory, through the application of the cost of sales percentage to reflect the reduction of revenue for estimated uncollectibles. - Application does not assign a value to inventory estimated to be foreclosed/revoked.	It is unclear how the Revenue Recognition ED or the Update on Financial Instruments— Credit Risk will require consideration of the value of inventory estimated to be foreclosed/revoked. - Use of fair value concepts under ASC 820? - Use of net realizable value (NRV) concept? - Practical application considerations for volume of transactions?
Calculation of Cost of Sales	Relative Sales Value Method - Revenue is offset by an estimate of uncollectibility. - Revenue includes volume attributed to resale of foreclosed/revoked inventory. Retrospective Product Cost True Ups	Relative Sales Value Method - Application as it relates to determination of revenue components is unclear. - Will revenue be gross for initial sale of inventory? - Will revenue include or exclude volume attributed to resale of foreclosed/revoked inventory? Retrospective Product Cost True Ups

While we understand the challenges the Boards have encountered in creating one principles-based revenue standard, we understand that, as stated in the “Basis for Conclusions” section of the ED, it was not the intent of the Boards to change the current existing cost guidance in other standards. We are concerned that if the recommended change to uncollectibility is required for timeshare companies, it will have the unintended consequence of impacting the current cost guidance that exists in ASC 978.

In the “Proposed Amendments to the FASB Accounting Standards Codification” document that was issued on January 4, 2012, by the FASB in conjunction with the re-exposed ED, *Revenue Recognition (Topic 605)—Revenue from Contracts with Customers*, the proposed amendments (included as Appendix A to this letter for the Board’s convenience) originally indicated to us that current practices with respect

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to uncollectibility and the relative sales value would be unchanged. However, we are concerned that the recent tentative decisions by the FASB, indicating that the effects of customer credit risk would be presented as a separate line item in operating expense rather than adjacent to revenue, would conflict with what the original proposed amendments indicated and have unintended consequences to the current industry guidance as described above. We are concerned that this will be overlooked when the final revenue recognition guidance is issued.

III. Recommendations

As noted in the Background section herein, the economics of timesharing lending is unique, due to the fungible nature of the product as the timeshare seller can repossess the timesharing interval and generally sell the repossessed unit for the same price or perhaps even a higher price. This phenomenon was considered in the SOP as discussed in the basis for conclusion, attached as Appendix D, and resulted in the accounting prescribed by the SOP. AcSEC considered three alternatives for the classification and display of uncollectible timesharing receivables and based upon existing guidance and the economics of timesharing sellers, concluded that an adjustment to revenue and cost of sales (via the relative sales value method) at the time of initial sale and continuous evaluation every reporting period was the preferred method. Accordingly, we believe that the uniqueness of the economics of timeshare transactions justifies an approach to reflecting the actual revenue expected in a way that differs from the Board's recent tentative decision.

Even without considering the recent proposed changes in accounting for credit losses, the industry already will have to make many changes with respect to its current revenue recognition policies, so as to comply with the guidance currently drafted in the ED. As previously stated in our March 12, 2012, letter, we believe that the current ED could negate all of the efforts of the timeshare industry to educate our lenders and investors on the economics of the industry. We also believe that financial statements generated under the proposed guidelines in the ED would potentially be less meaningful, as they would result in supplemental information being required. Providing such supplemental information is confusing, costly, and time-consuming and often results in a lack of investor interest, due to the continual additional work that is necessary to adjust the reported results to reflect the true operations of the business.

If the recent changes in accounting for uncollectibility impact the way that the industry currently accounts for inventory and costs of sale in addition to credit losses, then most of the current practices for accounting for timesharing transactions will be changed. Furthermore, we are concerned that the industry will be left without specific guidance on how to account for recoveries of timeshare units, inventory, and cost of sales. Using different methods to account for relative sales value can have a significant impact on a company's results.

To illustrate the impact on sales, cost of sales, and margin using different methods to calculate relative sales value, we have provided an example (see Appendix C), which compares the relative sales value calculated using the current methodology under ASC 978 to relative sales value calculated excluding the provision and recoveries. This example uses a similar fact pattern as the example (Example 1) that is currently codified in ASC 978, which is included at Appendix B. Without implementation guidance, there will be diversity in practice that will lead to decreased comparability of reported results within our industry, due to interpretive differences and less meaningful reporting. Finally, there will be unnecessarily high costs to the industry resulting from changes in accounting systems and processes.

We recommend that the Boards do not change the current accounting for uncollectibility from the presentation that is described in ASC 978. We believe that the current guidance appropriately addresses the concerns of the industry and the accounting bodies who were involved in issuing the SOP in 2004.

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Furthermore, leaving the guidance as is would not conflict with the Boards' goal of issuing a single, principles-based model for revenue recognition. Conversely, if a change in presentation of credit losses from net of revenue to operating expense is required in ASC 978, we would need clarification and interpretive guidance with respect to the unintended consequences that this would have on our current cost guidance.

IV. Illustrative Guidance in ASC 978-605

Timesharing accounting guidance, related to revenue recognition and inventory cost relief, is complex. The application is further complicated when combined with the "percentage-of-completion" accounting method (whether or not this will be applicable for timesharing transactions is still being determined).

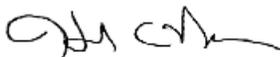
As illustrated in the "Proposed Amendments to the FASB Accounting Standards Codification" document that the Boards released in January 2012 after the ED was re-exposed, ASC 978-605, *Revenue Recognition-Real Estate Timesharing Activities*, will be superseded in its entirety. While this section covers revenue recognition concepts that we understand will be replaced by the new revenue guidance in ASC 605, ASC 978 also includes many examples that illustrate how the industry applies uncollectibility and the relative sales value. If ASC 978-605 is deleted in its entirety, the industry will be left without much needed application guidance and examples. For example, example 1 in paragraph 978-605-55-38 includes an illustration of the relative sales value method and the retrospective application due to changes in cost of sales percentages and example 5 in paragraph 978-605-55-50 includes an illustration of the determination of the reduction of revenue for estimated uncollectibles (See Appendix B for an example that is included in ASC 978-605). We believe the examples, which consider various scenarios, have proven to be extremely helpful to the industry, its investors, lenders, analysts, and its auditors.

ARDA appreciates the efforts of the Boards to create a universal set of guidelines for revenue recognition across all industries. While we previously communicated our initial concerns with the ED in a comment letter issued on March 12, 2012, and during a FASB outreach session held in April 2012, new concerns have risen as a result of the recent FASB deliberations.

In summary, we ask that the Boards consider the impact that accounting for credit losses has on other aspects of the accounting guidance for timesharing companies and that the current guidance for accounting for uncollectibility in timesharing transactions as described in ASC 978 remain unchanged. Secondly, we ask that the FASB consider keeping the current examples in ASC 978 related to the application of the relative sales value method and uncollectibility as these will continue to be relevant even after some of the underlying revenue recognition principles have changed.

Thank you for the opportunity to provide these comments on the ED. We would be pleased to discuss these concerns in depth at your convenience.

Sincerely,



Howard Nusbaum
President/CEO
American Resort Development Association

Attachments

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Appendix A: Excerpts from “Proposed Amendments to the FASB Accounting Standards Codification”

In the “Proposed Amendments to the FASB Accounting Standards Codification” document that was issued on January 4, 2012 by the FASB in conjunction with the re-exposed ED, *Revenue Recognition (Topic 605) – Revenue from Contracts with Customers*, the proposed amendments originally indicated to us that current practices with respect to uncollectibility and the relative sales value would be unchanged. However, we are concerned that the recent tentative decisions by the FASB indicating that the effects of customer credit risk would be presented as a separate line item in operating expense rather than adjacent to revenue would conflict with what the original proposed amendments indicated and have unintended consequences to the current industry guidance as described in our letter. We have included excerpts from the proposed amendments below.

“Real Estate—Timesharing Activities

978-310-35-4 A note receivable **modification, deferment, or downgrade** represents a troubled debt restructuring involving only the modification of the terms of a note receivable. Therefore, the creditor (time-share seller) shall account for those transactions in accordance with Topic 310. Any reductions in the recorded investment in a note receivable resulting from the application of that Topic shall be charged against the allowance for uncollectibles. ~~uncollectibles, because the estimated losses were recorded against revenue at the time the time share sale was recognized or were recorded subsequently against revenue as a change in estimate.~~ Incremental, direct costs associated with uncollectibility, such as costs of collection programs, shall be charged to expense as incurred.

978-310-35-5 Once an initial timesharing sale transaction has been recorded (which includes a reduction of recognized revenue for estimated uncollectibles), accounting for the allowance for uncollectibles follows similar valuation principles as any ~~receivable, except that there is no bad debt expense.~~ **receivable**. Each reporting period and at least quarterly a seller evaluates its receivables, estimates the amount it expects to ultimately collect, and evaluates the adequacy of its allowance pursuant to Section 310-10-35. The allowance is then ~~adjusted, with a corresponding adjustment to current period revenue through the estimated uncollectibles account, which is a contra-revenue account.~~ **adjusted and presented in accordance with paragraph 605-10-30-23.** A corresponding adjustment is also made to cost of sales and inventory.

978-310-35-6 The allowance for uncollectibles shall be determined based on consideration of uncollectibles by year of sale, as well as the aging of notes receivable and factors such as the location of the timesharing units, contract terms, collection experience, economic conditions, and other qualitative factors as appropriate in the circumstances. See Example 5 (paragraph 978-605-55-50) for an illustration of the determination of the allowance for uncollectibles.

978-330-30-1 Sellers of **timesharing** intervals shall account for cost of sales and timesharing inventory using the **relative sales value method**. The relative sales value method shall be applied to each **phase** separately. **Common costs**, including **amenities**, shall be allocated to inventory among the phases that those costs will benefit. ~~The relative sales value method is illustrated in Example 1 (see paragraph 978-605-55-38), Example 2 (see paragraph 978-605-55-41), Example 3 (see paragraph 978-605-55-44) and Example 4 (see paragraph 978-605-55-46).~~

978-330-35-1 At least quarterly, both total revenue and total cost estimates shall be recalculated. A **timesharing** entity shall adjust at least quarterly even if it does not issue quarterly financial reports under Securities and Exchange Commission (SEC) reporting requirements. The estimate of total revenue (actual to-date plus expected future revenue) **for use in the relative sales value method** shall incorporate factors such as incurred or estimated uncollectibles, changes in sales prices or sales mix, repossession of intervals that the seller may or may not be able to resell, effects of **upgrade** programs, and past or expected sales incentives to sell slow-moving inventory units. The cost-of-sales percentage shall be similarly recalculated each time estimated revenue or cost is adjusted, using the new estimate of total revenue and total cost (including costs to complete, if any). The effects of changes in estimate ~~for cost~~ shall be accounted for in each period using a current-period adjustment, that is, the **time-share** seller shall account for a change in estimate in the period of change so that the balance sheet at the end of the period of change and the accounting in subsequent periods are as they would have been if the revised estimates had been the original estimates. The effects of changes in estimate shall be disclosed in accordance with paragraph 250-10-50-4. ~~See paragraph 978-605-55-37 for illustrations of the relative sales value method; Examples 2 and 4 (see paragraphs 978-605-55-41 and 978-605-55-46) illustrate changes in estimate.~~ The inventory balance reported in the balance

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sheet, plus estimated costs to complete that inventory, if any, represents a pool of costs that will be charged against future revenue.

978-330-35-2 ~~As discussed in paragraph 978-310-30-2, the~~ The recording of ~~an a-~~ sales revenue adjustment for expected uncollectibles is accompanied by a corresponding adjustment to cost of sales and inventory that is effected through the application of the cost-of-sales percentage. However, under the relative sales value method, there is no accounting effect on inventory if a timesharing **interval** is repossessed or otherwise reacquired unless the repossession causes a change in expected uncollectibles ~~(and, thereby, estimated revenue) as discussed in the preceding paragraph.~~ uncollectibles. The seller shall, however, perform impairment testing on its inventory in accordance with paragraphs 360-10-35-38 through 35-40, 360-10-35-43, and 360-10-40-5.

605-10-30-23 Upon initial recognition of the receivable, any difference between the measurement of the receivable in accordance with Topic 310 and the corresponding amount of revenue recognized shall be presented in profit or loss **as a separate line item adjacent to the revenue line item**. If the contract does not have a significant financing component in accordance with paragraph 605-10-30-10, an entity shall present any impairment of the receivable (or change in the measurement of the impairment) in profit or loss as a separate line item adjacent to the revenue line item."

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Appendix B – Examples from ASC 978-605

As illustrated in the “Proposed Amendments to the FASB Accounting Standards Codification” document that the Boards released in January 2012 after the ED was re-exposed, ASC 978-605, *Revenue Recognition-Real Estate Timesharing Activities*, will be superseded in its entirety. While this section covers revenue recognition concepts that we understand will be replaced by the new revenue guidance in ASC 605; ASC 978 also includes many examples that illustrate how the industry applies uncollectibility and the relative sales value. If ASC 978-605 is deleted in its entirety, the industry will be left without much needed application guidance and examples. Attached below are two examples that are currently codified in ASC 978-605 that demonstrate the application of the aforementioned concepts. All requirements for full accrual sale accounting are met.

Example 1: Relative Sales Value Method, Full Accrual Method, No Year-to-Year Changes in Cost-of-Sales Percentage

55-38 This example illustrates the full accrual method of profit recognition. For 20X1:

All requirements for full accrual sale accounting are met.

Estimated Sales Prices and Distribution

	20X1	20X2	20X3	20X4 and Future	Total No. of Intervals	Sales Price	Expected Future Revenue
Type X	250	250	100		600	\$9,500	\$5,700,000
Type Y	200	50	50		300	\$10,000	3,000,000
Type Z	50	50			100	\$13,000	1,300,000
	500	350	150		1,000		10,000,000
Sales of recovered interval		10	40	50	100	\$9,500	950,000 ^(a)
	500	360	190	50	1,100		10,950,000

Estimated sales discounts	-
Estimated uncollectible notes	(985,500)
Estimated future revenue	<u>\$9,964,500</u>

Sales for 20X1 are \$5,025,000 (the 500 units from above at the respective sales prices shown above). Inventory is complete, with no estimated costs to complete.

(a) [For simplicity purposes only.] It is likely that the seller may not be able to sell all remaining units, as some units will be undesirable or the sales effort will not be cost-effective.

Initial down payment:	10% (on all sales; no cash sales)
Forfeiture on defaulted notes:	100% of cash paid
Inventory cost:	\$2,500,000
Cost of sales percentage:	25.09% (\$2,500,000 ÷ \$9,964,500)
Initial estimated default rates:	10% of note principal

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Accounting Entries

20X1	Notes Receivable	\$4,522,500	
	Cash	502,500	
	Sales contra (estimated uncollectible sales)	452,250	
	Sales		\$5,025,000
	Allowance for Uncollectible Notes Receivable		452,250
20X1	Cost of Sales	1,147,260	
	Inventory		1,147,260

Cost of Sales Calculation

Sales	\$5,025,000
Estimated uncollectible sales	<u>(452,250)</u>
Net sales	4,572,750
Cost of sales %	<u>25.09%</u>
	<u>\$1,147,260</u>

Ending Inventory Calculation

Total expected revenue, 20X1 and future	\$9,964,500
Net sales – 20X1	<u>(4,572,750)</u>
Remaining expected revenue	5,391,750
Cost of sales %	<u>25.09%</u>
Inventory balance	<u>\$1,352,740</u>

12/31/20X1	Ending inventory	<u>\$1,352,740</u>
	# of intervals defaulted	<u>20^(a)</u>
	# of intervals defaulted that are recovered	<u>20^{(a)(b)}</u>
	Remaining intervals available for sale	<u>520 = 1,000 – 500 + 20</u>

- (a) Amount is a given for this Example and is not derived from any assumptions. Of the 100 units expected to default and be recovered, only 85 occur during 20X1-20X3. The remaining 15 defaults are expected to occur and become available for sale after 20X3.
- (b) [For simplicity purposes only.] Normally, not all interval sales that default will result in recovery of inventory by the seller, as a result of issues such as significant legal (foreclosure) costs and marketability of particular units. In determining estimated future revenue, the seller should take into account the effect of those intervals that would not be recovered vs. the effect of those that would. To simplify the illustration, that effect has not been reflected.

Example 5: Illustration of Use of Historical Data on Uncollectibles, Including Related Disclosures

55-50 This Example shows how a timeshare entity may organize its historical data about uncollectibles in order to determine the charge to revenue for estimated uncollectibles on current-year (2006) sales, and to access the adequacy of the allowance for uncollectibles as of the end of 2006. Related illustrative disclosures are included.

55-51 The following table illustrates net down payments by year.

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Sales, Net of Down Payments, by Year

(For projects with characteristics similar to the entity’s current project)

1996	\$28,000	2002	\$60,000
1997	\$26,000	2003	\$70,000
1998	\$30,000	2004	\$76,000
1999	\$33,000	2005	\$80,000
2000	\$34,000	2006	\$90,000
2001	\$50,000		

55-52 The tables in paragraph 978-605-55-55 summarize the uncollectibles experience for years 1996 through 2006 for projects similar to the entity’s current time-share project. The uncollectibles are organized into columns based on the year of sale. Thus, the column 2001 Sales shows that of the \$50,000 of sales recorded in 2001, \$1,100 in receivables were deemed uncollectible in 2001, \$2,000 in 2002, \$900 in 2003, and so on. That is, \$1,100 of individually identified notes receivable were past due and there was no expectation of subsequent collectibility. However, those tables also can be analyzed to show receivables deemed uncollectible in each fiscal year. For example, in 2006, as shown by the figures inside rectangles, there were \$7,670 in total uncollectible receivables, specifically, \$2,070 from 2006 sales, \$2,600 from 2005 sales, \$1,400 from 2004 sales, \$800 from 2003 sales, \$500 from 2002 sales, \$200 from 2001 sales, and \$100 from 2000 sales. The Combined Experience column is computed two ways—one using only those sales from 1996 through 2000, 1996-2000, for which the notes have been collected in full, and the other, All Years, using the uncollectibility experience for all years. The combined experience is calculated as a simple average here for illustration purposes. A weighted average also would be appropriate.

Assessment of Historical Data

55-53 Fluctuations in collection experience from year to year can be explained by economic conditions; the economy was stronger in 2003 through 2006 than in prior years, and uncollectibility rates declined modestly. As the year 2006 ends, the economy is softening. As a result, the entity concludes that the percentages from the Combined Experience, All Years column in the tables in paragraph 978-605-55-55, which blends the strong economic conditions of recent years and the weaker conditions of earlier years, should be applied to compute the charge to revenue for estimated uncollectibles on current year (2006) sales and to assess the adequacy of the allowance for uncollectibles at the end of 2006.

55-54 Economic conditions discussed in this Example are hypothetical and for illustrative purposes only. They are not intended to reflect actual economic conditions existing during the indicated years.

55-55 The following tables illustrate the uncollectibles experience for years 1996 through 2006 for projects similar to the entity’s current time-share project.

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	2006 Sales		2005 Sales		2004 Sales		2003 Sales		2002 Sales		2001 Sales	
	Uncollectible	% of sales (net of down pmts.)										
FY of Sale	\$2,070	2.3%	\$1,800	2.3%	\$1,400	1.8%	\$1,300	1.9%	\$1,300	2.2%	\$1,100	2.2%
1 yr after			2,600		2,700		2,200		2,000		2,000	
FY of sale				3.3%		3.6%		3.1%		3.3%		4.0%
2 yrs after					1,400		1,300		1,000		900	
FY of Sale						1.8%		1.9%		1.7%		1.8%
3 yrs after							800		900		600	
FY of Sale								1.1%		1.5%		1.2%
4 yrs after									500		700	
FY of Sale										0.8%		1.4%
5 yrs after											200	
FY of Sale												0.4%
6 yrs after												
FY of Sale												
Total												
uncollected												
sales as of												
12/31/2006	\$2,070	2.3%	\$4,400	5.6%	\$5,500	7.2%	\$5,600	8.0%	\$5,700	9.5%	\$5,500	11.0%

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	2000 Sales		1999 Sales		1998 Sales		1997 Sales		1996 Sales		Combined Experience	
	Uncollectible	% of sales (net of down pmts.)	1996-2000	All Years								
FY of Sale	\$1,000	2.9%	\$800	2.4%	\$750	2.5%	\$700	2.7%	\$500	1.8%	2.5%	2.3%
1 yr after FY of sale	1,500	4.4%	1,400	4.2%	1,300	4.3%	1,000	3.8%	900	3.2%	4.0%	3.7%
2 yrs after FY of Sale	900	2.6%	850	2.6%	700	2.3%	550	2.1%	450	1.6%	2.3%	2.0%
3 yrs after FY of Sale	600	1.8%	700	2.1%	500	1.7%	400	1.5%	300	1.1%	1.6%	1.5%
4 yrs after FY of Sale	300	0.9%	250	0.8%	250	0.8%	250	1.0%	150	0.5%	0.8%	0.9%
5 yrs after FY of Sale	150	0.4%	250	0.8%	150	0.5%	100	0.4%	75	0.3%	0.5%	0.5%
6 yrs after FY of Sale	100	0.3%	150	0.5%	100	0.3%	75	0.3%	100	0.4%	0.3%	0.3%
Total uncollected sales as of 12/31/2006	\$4,550	13.3%	\$4,400	13.4%	\$3,750	12.4%	\$3,075	11.8%	\$2,475	8.9%	12.0%	11.2%

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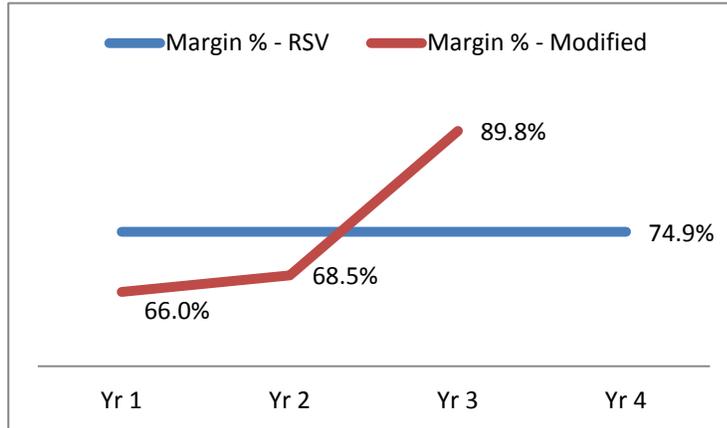
Appendix C – Illustration of Different Methods to Calculate Relative Sales Value

Using different methods to account for relative sales value can have a significant impact on a Company's results. To illustrate the impact on sales, cost of sales and margin using different methods to calculate relative ASC 978 to relative sales value calculated excluding the provision and recoveries. This example uses a similar fact pattern as the example (Example 1) that is currently codified in ASC 978, which is included at Appendix B.

	Year 1	Year 2	Year 3	Year 4	Total
Current RSV Methodology:					
Sales					
Initial Sales	\$5,025,000	\$3,525,000	\$1,450,000	\$ -	\$10,000,000
Recovered intervals	-	95,000	380,000	475,000	950,000
	5,025,000	3,620,000	1,830,000	475,000	10,950,000
Provision	(452,250)	(325,800)	(164,700)	(42,750)	(985,500)
Net Sales	\$4,572,750	\$3,294,200	\$1,665,300	\$432,250	\$9,964,500
Cost of Sales					
	\$1,147,260	\$826,484	\$417,808	\$108,447	\$2,500,000
	25.09%	25.09%	25.09%	25.09%	25.09%
Margin					
	\$3,425,490	\$2,467,716	\$1,247,492	\$323,803	\$7,464,500
	74.91%	74.91%	74.91%	74.91%	74.91%
RSV, excluding provision and recoveries:					
Sales					
Initial Sales	\$5,025,000	\$3,525,000	\$1,450,000	\$ -	\$10,000,000
Recovered intervals	-	-	-	-	-
	5,025,000	3,525,000	1,450,000	-	10,000,000
Provision	-	-	-	-	-
Net Sales	\$5,025,000	\$3,525,000	\$1,450,000	\$ -	\$10,000,000
Cost of Sales					
	\$1,256,250	\$881,250	\$362,500	\$ -	\$2,500,000
	25.00%	25.00%	25.00%		25.00%
Provision					
Provision	452,250	325,800	164,700	42,750	985,500
Sale of recovered intervals	-	(95,000)	(380,000)	(475,500)	(950,000)
	452,250	230,800	(215,300)	(432,250)	35,500
Total Expense	\$1,708,500	\$1,112,050	\$147,200	\$ (432,250)	\$2,535,500
Margin					
	\$3,316,500	\$2,412,950	\$1,302,800	\$432,250	\$7,464,500
	66.00%	68.45%	89.85%	n/m	74.65%

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	Year 1	Year 2	Year 3	Year 4
Margin % - RSV	74.9%	74.9%	74.9%	74.9%
Margin % - Modified	66.0%	68.5%	89.8%	n/m



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Appendix D: Excerpts from “Statement of Position (SOP) 04-2, Accounting for Real Estate Timesharing Transactions”

Appendix A: Basis for Conclusions

Accounting for Uncollectibility

A-21. AcSEC considered the following three alternatives for the classification and display of uncollectibles:

- a. Adjust revenue and cost of sales (the approach in this SOP).
- b. Record bad debt expense.
- c. Adjust revenue and cost of sales for the initial estimates of uncollectibles and record bad debt expense for subsequent increases in estimated uncollectibles.

A-22. The first alternative AcSEC considered was to adjust revenue and cost of sales. AcSEC selected that alternative for this SOP primarily for the following reasons:

a. Some AcSEC members view time-share uncollectibles as having some elements of a right of return as discussed in FASB Statement No. 48, Revenue Recognition When Right of Return Exists, because, typically, it is not cost-effective for a time-share seller to pursue buyers for collection after a certain point. Once a time-share seller forecloses on a time-share interval, the seller typically stops pursuing the buyer for collection of the unpaid note, even if the note balance exceeds the fair value less costs to sell of the interval to the seller. Another similarity with a right of return is that a repossessed interval is essentially “good as new” and can be resold at substantially the same price as an interval that never was sold. In contrast to the uncollectible that results from a trade receivable, the sold item (that is, the timesharing interval) is repossessed in the timesharing arrangement. As a result, the foreclosure is akin to a sales return that reduces revenue.

b. Timesharing transactions are characterized by a number of attributes that distinguish them from typical OTRLS transactions. Primary among these attributes are high volume and seller financing. Other distinguishing attributes include relatively low down-payment requirements and marketing and selling efforts with a high cost relative to the price of timesharing intervals. Paragraph 1 of FASB Statement No. 66 states, “The Statement distinguishes between retail and sales and other sales of real estate because differences in terms of sales and selling procedures lead to different profit recognition criteria and methods.” Under the description of retail land sales in paragraph 100 of FASB Statement No. 66, and in view of similarities between their sales and selling procedures, retail land sales and timesharing transactions share many more of the same attributes than do retail land sales and typical OTRLS transactions. Paragraph 70 of FASB Statement No. 66 provides the following guidance for retail land sales: “Cost of sales...are based on sales net of those sales expected to be canceled in future periods.” Although FASB Statement No. 66 provides no comparable guidance for cost of sales in OTRLS transactions, AcSEC believes that the retail land sales concept of not recording transactions expected to be canceled in future periods is also appropriate for time-share transactions.

c. If uncollectibles are recorded as bad debt expense, the seller records revenue (and cost of sales) for more than 100 percent of the intervals constructed, because foreclosed intervals are resold. In fact, the worse the collection experience, the more intervals that are repossessed are resold, leading to higher reported revenue (and cost of sales). AcSEC believes that approach overstates revenue.

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d. The time-share industry has, in practice, recorded repossessed intervals at their original cost rather than at fair value on the date of foreclosure. However, FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings (as amended by paragraph C24 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), states that foreclosed assets should be recorded at fair value less cost to sell. AcSEC concluded that if foreclosed intervals were recorded at fair value less cost to sell, there would be significant issues over the proper approach to measuring fair value less cost to sell. Some argue for an approach that would essentially eliminate allowances for uncollectibles for many developers that have the selling and marketing infrastructure to sell repossessed intervals at a price close to the original sales price. Others would reject that approach because it fails to reflect an allocated cost of maintaining that infrastructure. Some would make the measurement equal to the net proceeds that an existing time-share owner would receive if the time-share were sold on the secondary market. Some would measure fair value based on reproduction cost. Finally, some would apply the definition of market in paragraph 8 (“Statement 6”) of Chapter 4 of Accounting Research Bulletin (ARB) No. 43, Restatement and Revision of Accounting Research Bulletins, which states that for purposes of pricing inventory, market is replacement cost, subject to a floor and a ceiling.

As used in the phrase lower of cost or market, the term market means current replacement cost (by purchase or by reproduction, as the case may be) except that:

(1) Market should not exceed the net realizable value (i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal); and

(2) Market should not be less than net realizable value reduced by an allowance for an approximately normal profit margin. AcSEC chose not to debate those approaches. AcSEC’s preferred solution (the alternative presented in item a in paragraph A-21 of this SOP), through the application of the relative sales value method, does not require an assessment of fair value.

A-23. AcSEC recognizes that its preferred solution has some disadvantages:

a. It differs from general practice in other industries (other than the retail land sales industry).

b. It includes in inventory the cost of some intervals for which legal title has passed from seller to buyer.

c. It creates an issue of how to address changes in estimates of revenue and cost of sales.

On balance, however, AcSEC believes that the method chosen for this SOP is the best of the alternatives.

A-24. The second alternative AcSEC considered was to record uncollectibles as bad debt expense, measured as the excess of the expected uncollectible receivables over the historical inventory cost of the intervals expected to be repossessed. The advantages of that alternative are the following:

a. This approach would be similar to existing practice in the time-share industry.

b. This approach would clearly display on the face of the income statement two important metrics for time-share developers—namely, sale transactions closed in the current reporting period and the charge for credit losses net of inventory recoveries. Under AcSEC’s approach, those amounts are not required to be displayed in the income statement.

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c. Gross profit percentages calculated under this approach may be easier to interpret than under AcSEC's approach.

The disadvantages of the bad debt expense alternative generally are discussed in paragraph A-22 as advantages of AcSEC's approach. Many respondents to the exposure draft expressed a preference for the bad debt expense alternative, largely for the reasons noted in items a and b of paragraph A-23. Respondents commented also that AcSEC's approach compromises the seller's ability to separately measure the performance of its selling and financing processes because the approach distorts the measurement of both the efficiency of the selling and marketing efforts to produce sales revenue and the performance of the seller's portfolio of notes receivable.

A-25. Finally, AcSEC considered a hybrid approach under which estimated uncollectibles for a short time after a sale (six to twelve months) would be classified as reductions of revenue, but increases in estimated uncollectibles after that time would be classified as bad debt expense. The idea was that uncollectibility that occurs within a short time following the sale transaction is more akin to a return, as if the buyer had a change of heart, whereas uncollectibility after the buyer has built some equity in the property is more akin to "credit losses" in other industries. AcSEC believes strongly, however, that all uncollectibles should be classified in the same line in the income statement. In addition, AcSEC members were concerned that if there were a bright line, sellers could time their changes in estimate and their foreclosure strategies to achieve the classification that they desired. As a result, AcSEC did not pursue this approach.