



## What Your CFO Wishes You Knew

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### Contracting Considerations:

- ▶ Key customer contract terms to discuss:
  - ▶ Understanding the client (Who, where, credit risk, credit extension)
  - ▶ Billing terms
    - ▶ Days to collection
    - ▶ Billing processes (deviation from standard process)
  - ▶ Impact of receivable age & who monitors and pursues
  - ▶ Discuss lien filing or securitization process
  - ▶ Minimum volume/ revenue commitments
  - ▶ Most favored customer clauses
  - ▶ Subcontracting/ vendor agreements
    - ▶ Flowdowns
    - ▶ Billing terms

## Litigation Considerations

- ▶ Reserve? Accounting Standards Codification §450-20-25-2 (old FAS 5)

An estimated loss from a loss contingency shall be accrued by a charge to income if **both** of the following conditions are met:

a. Information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that it is **probable** that an asset had been impaired or a **liability had been incurred** at the date of the financial statements. Date of the financial statements means the end of the most recent accounting period for which financial statements are being presented. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

b. The amount of loss can be **reasonably estimated**.

- ▶ Disclosure? (ASC §450-20-50)
  - ▶ unfavorable outcome is probable, but you cannot reasonably estimate the amount,
  - ▶ unfavorable outcome is reasonably possible

## Loss Contingency Analysis

| <u>Likelihood of Loss</u> | <u>Loss Reasonably Estimable</u> | <u>Outcome</u>                  |
|---------------------------|----------------------------------|---------------------------------|
| Probable                  | Yes                              | Accrue & Disclose (if material) |
| Probable                  | No                               | Disclose (if material)          |
| Reasonably Possible       | Yes or No                        | Disclose (if material)          |
| Remote                    | Yes or No                        | No Action                       |

Probable –when the future event is likely to occur.

Reasonably Possible –when the chance of the future event or events occurring is more than remote but less than likely.

Remote –when the chance of the future event or events occurring is slight.

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