



The Effect of Escheat Laws on Accounting for Casino “Chip Float”

By: Howard B. Levy, CPA

Accounting rules relative to revenue recognition have been evolving rapidly, and casino operators and their accountants and auditors have been wondering how, if at all, the not yet effective new rules will affect the gaming industry. This article focuses on the recognition of revenue from the periodic adjustments of liabilities for unredeemed chips and tokens that are commonplace in casinos.

GAAP [ASC 924-405-35-1 (and reaffirmed prospectively pursuant to the new revenue recognition standard in ASC 924-405-25-1)] requires that a recorded liability for unredeemed casino chips and tokens (commonly called the “chip liability” or the “chip float”) “be adjusted periodically to reflect an estimate of chips that will never be redeemed (for example, chips that have been lost, taken as souvenirs, and so on.” This requires the periodic use of change in estimate accounting as dictated by other GAAP [ASC 250-10-45-17 through -19]. Accordingly, downward adjustments to the estimated portion of the recorded chip float liability that is judged not probable of ever being redeemed are commonly called “breakage” and generally treated as credits to gaming revenue. These probability assessments are typically based on historical experience (which may be challenging for a new casino) and chip denominations. (Naturally, larger denomination chips are more likely to be redeemed, even after long periods, than smaller ones.)

Casinos track chips issued and redeemed by designated series and denominations. Sometimes a particular series of gaming chips is retired from service (frequently in connection with a change in ownership of the casino), in which case, pursuant to gaming regulations, the casino typically makes a public announcement in advance of a scheduled expiration date, giving patrons time to redeem held chips or tokens before they become worthless. These actions generally result in legal release from the related obligation and derecognition of the related portion of the liability upon the expiration date.

So what’s new about this? Nothing really except that under the new revenue recognition standard [ASC 606-10-50-4], when adopted, material revenue from breakage income will have to be separately disclosed (either on the statement of operations or the notes). All of the foregoing was confirmed in Issue #6-11, one of a series of “working drafts” distributed publicly in 2016 by the AICPA’s Financial Reporting Executive Committee (FinREC, the successor to AcSec). These drafts discuss implementation issues regarding the new revenue recognition standard. When finalized, the content of this material is to be included in a new revenue recognition guide under development. FinREC characterized Issue #6-11 as

having only “minimal” effect on gaming industry reporting (i.e., the new disclosure requirement).

But also in 2016, the FASB issued new GAAP [ASU 2016-04] that, despite its inapplicability to gaming chips, per se, raised a question some may not have considered previously, the question of whether taking downward adjustments of the liability into revenue might be barred by state escheat laws commonly called “unclaimed property” or “abandoned property” laws.

Escheat laws typically preclude obligors from obtaining financial benefits as a result of being unable to liquidate certain obligations with payments to the proper obligee, and they protect those to whom money is owed by requiring that payment be made instead to the state. They serve as a legal barrier that can prevent revenue recognition for breakage as otherwise might be required by GAAP. Casino chip liabilities were expressly excluded from the scope of the 2016 ASU primarily because of the other, more direct GAAP cited above that was already in place and not amended with regard to escheat laws either by the ASU or the comprehensive new revenue recognition standard [ASC 606].

Auditor guidance: Fortunately for Nevada casino operators, NRS 120A.135 exempts gaming chips and tokens from the state’s unclaimed property (escheat) statute, leaving our Nevada gaming clients free to recognize revenue from appropriate downward adjustments of the chip float. However, although statutes may be similarly constructed in other jurisdictions, some may differ in this regard, and auditors are cautioned to assure that casinos operating in other jurisdictions have obtained assurance, possibly from legal counsel, as to the applicability or inapplicability, of such an escheat requirement when they have made (or propose to make) a downward adjustment of their chip float, and if determined to be applicable, as to their compliance.

So the bottom line is that Nevada casino operators will continue to account for the chip float as always, but those who operate in other jurisdiction must beware of the possible effect of escheat laws on derecognition.

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