

Case 19-2c
Quit While You're Ahead

House Rules Inc. (HR) is a public gaming company with a quarterly reporting period of June 30, 2015.

On June 15, 2015, Royal Flush Inc. (RF), a subsidiary consolidated by HR in accordance with FASB Accounting Standards Codification (ASC) Topic 810-10, *Consolidation: Overall* (“ASC 810-10”), filed for reorganization under Chapter 11 of the Bankruptcy Code. Although HR retains its 75 percent ownership interest, the court controls RF as of the bankruptcy event. Because HR has lost control, in the second quarter of 2015, it uses the cost method to account for its investment in RF upon deconsolidation in accordance with ASC 810-10 (the “deconsolidation event”). HR anticipates some level of ownership or involvement in RF upon RF’s emergence from bankruptcy.

RF historically comprised HR’s operating casinos (including the hotels, underlying land, and related intangibles); it has the same fiscal year as HR. RF provides casino entertainment services and owns, operates, or manages 25 gaming and resort properties (collectively, the “RF properties”). Through a related-party management services agreement, HR Management Inc. (HRM), an indirect subsidiary of HR, historically provided all of RF’s operating services, including management and employees.

As a result of the deconsolidation event, HR evaluates whether RF’s historical operations should be presented as discontinued operations for the quarter ending on June 30, 2015. Before the deconsolidation event, RF represented approximately 45 percent of the carrying value of HR’s total consolidated assets, 65 percent of total consolidated liabilities, and 55 percent of total consolidated revenue; therefore, RF represented a significant portion of HR’s consolidated operations.

While RF holds 25 properties, HR continues to own and operate approximately 10 gaming and resort properties (collectively, the “HR properties”). The HR properties are located in the same geographic areas as the RF properties and have similar operating characteristics and profitability profiles. The HR properties and RF properties continue to be operated with the HR brand name and managed by HRM during the bankruptcy.

Assume the following in evaluating this case:

- RF represents a “disposal group” as defined in the ASC Master Glossary.
- RF meets the definition of a “component of an entity” in the ASC Master Glossary.
- The deconsolidation event represents a disposal by means other than sale in accordance with ASC 360-10-45-15. While ASC 360-10-45-15 provides the specific examples of abandonment or distribution to owners in a spin as disposals other than by sale, the deconsolidation event is analogous to abandonment in which legal title of RF is retained by HR but HR effectively loses control and significant influence over the entity because of the bankruptcy court and bankruptcy proceedings.

Required:

1. Should HR report RF's operations as discontinued operations as of June 30, 2015, in accordance with ASC 205-20?