FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2009-13
October 2009

Revenue Recognition (Topic 605)

Multiple-Deliverable Revenue Arrangements

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of this Update is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. Subtopic 605-25, Revenue Recognition—Multiple-Element Arrangements, establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. Specifically, this Subtopic addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting.

Existing U.S. generally accepted accounting principles (GAAP) requires a vendor to use vendor-specific objective evidence or third-party evidence of selling price to separate deliverables in a multiple-deliverable arrangement. Vendor-specific objective evidence of selling price is the price charged for a deliverable when it is sold separately or, for a deliverable not yet being sold separately, the price established by management with the relevant authority. Third-party evidence of selling price is the price of the vendor's or any competitor's largely interchangeable products or services in standalone sales to similarly situated customers. If a vendor does not have vendor-specific objective evidence or third-party evidence of selling price for the undelivered elements in an arrangement, the revenue associated with both delivered and undelivered elements are combined into one unit of accounting. Any revenue attributable to the delivered products is then deferred and recognized as the undelivered elements are delivered by the vendor. An exception to this guidance exists if the vendor has vendor-specific objective evidence or third-party evidence of selling price for the undelivered elements in the arrangement but not for the delivered elements. In those situations, the vendor uses the residual method to allocate revenue to the delivered element, which results in the allocation of the entire discount in the arrangement, if any, to the delivered element.

Constituents have raised concerns that this guidance results in financial reporting that does not reflect the underlying economics of transactions.

Who Is Affected by the Amendments in This Update?

The amendments in this Update will affect accounting and reporting for all vendors that enter into multiple-deliverable arrangements with their customers when those arrangements are within the scope of Subtopic 605-25. The amendments in this Update do not affect arrangements for which industry-specific allocation and measurement guidance exists, such as Subtopic 605-35 for long-term construction contracts and Topic 985 for software transactions. However, the amendments in this Update will also affect vendors that are affected by the guidance in Accounting Standards Update No. 2009-13, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements* (a consensus of the FASB Emerging Issues Task Force), which is being issued concurrently with this Update. That Update will affect vendors that sell tangible products that include software. Arrangements include written, oral, and implied contracts between the sellers and their customers.

What Are the Main Provisions?

Accounting Guidance

This Update provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments in this Update establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. The amendments in this Update also will replace the term *fair value* in the revenue allocation guidance with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant.

The amendments in this Update will eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

The amendments in this Update will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. The amendments in this Update do not prescribe any specific methods that vendors must use to accomplish this objective; however, examples have been provided to illustrate the concept of estimated selling price and the relative selling price method.

Disclosures

The amendments in this Update significantly expand the disclosures related to a vendor's multiple-deliverable revenue arrangements. A vendor will be required to disclose the following information by similar type of arrangement:

1. A description of the entity's multiple-deliverable arrangements, which includes the nature and terms of the arrangement
2. The significant deliverables within its arrangements
3. The general timing of their delivery or performance of deliverables
4. The significant factors and estimates used to determine vendor-specific objective evidence, third-party evidence, or estimated selling price, and significant changes in the selling price or the methodology or the assumptions used to estimate selling price
5. The general timing of revenue recognition for separate units of accounting.

The objective of the disclosures is to provide information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition.

In the year of adoption, vendors will be required to disclose information that enables users of its financial statements to understand the effect of adopting the amendments in this Update. To satisfy that objective, vendors will be required to disclose at a minimum the following qualitative information by similar types of arrangements:

1. A description of any change in the units of accounting
2. A description of the change in how a vendor allocates the arrangement consideration to various units of accounting
3. A description of the changes in the pattern and timing of revenue recognition
4. Whether the adoption of this Update is expected to have a material effect on financial statements in periods after the initial adoption.

If the adoption of the amendments in this Update does have a material effect on financial statements, vendors will be required to supplement the qualitative information with quantitative information to satisfy the objective of describing the effect of the change in accounting principle. Depending on a vendor's facts and circumstances, the following are examples of methods (but not the only potential methods) that may individually or in combination provide quantitative information to satisfy that objective:

1. Disclosure of the amount of revenue that would have been recognized in the year of adoption if the related arrangements entered into or materially modified after the effective date were subject to the

measurement requirements of Subtopic 605-25 (before the amendments in this Update)
2. Disclosure of the amount of revenue that would have been recognized in the year preceding the year of adoption if the arrangements accounted for under Subtopic 605-25 (before the amendments in this Update) were subject to the measurement requirements of the amendments in this Update
3. Disclosure of the amount of revenue recognized in the reporting period and the amount of deferred revenue as of the end of the reporting period from applying (a) the guidance in Subtopic 605-25 (before the amendments in this Update) and (b) the amendments in this Update.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update will significantly improve the reporting of transactions to more closely reflect the underlying economics of the transactions. Currently, the absence of vendor-specific objective evidence or third-party evidence of selling price of the undelivered item in an arrangement is a common reason that vendors are unable to separate deliverables in an arrangement. In those situations, the timing of revenue recognition may be deferred until the delivery of the last deliverable or the entire fee may be recognized over the period during which the last deliverable is delivered or performed. Constituents have asserted that the current accounting often does not reflect the underlying economics of a transaction. As a result, the amendments in this Update will require allocation of the overall consideration to each deliverable using the estimated selling price in the absence of vendor-specific objective evidence or third-party evidence of selling price for deliverables.

Additionally, eliminating the residual method of allocation will improve financial reporting because the relative selling price method spreads any discount in an arrangement across all of the deliverables in that arrangement rather than allocating the entire discount to the delivered items. However, this change will require a vendor to estimate a selling price for delivered items regardless of whether vendor-specific objective evidence or third-party evidence of selling price exists for these items.

The disclosures required by the amendments in this Update also will significantly improve financial reporting by providing users of financial statements with greater transparency of how a vendor allocates revenue in its arrangements, the significant judgments made, and changes to those judgments in allocating that revenue, and how those judgments affect the timing and amount of revenue recognition.

When Will the Amendments Be Effective?

The amendments in this Update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity will be required to apply the amendments in this Update retrospectively from the beginning of the entity's fiscal year. Additionally, vendors electing early adoption will be required to disclose the following information at a minimum for all previously reported interim periods in the fiscal year of adoption: revenue, income before income taxes, net income, earnings per share and the effect of the change for the appropriate captions presented.

A vendor may elect, but will not be required, to adopt the amendments in this Update retrospectively for all prior periods. However, a vendor cannot apply the amendments in this Update retrospectively to a period if it is impracticable for it to report the change through retrospective application to that prior period.

How Do the Main Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS provides little guidance about the allocation of consideration in multiple-deliverable arrangements. However, IFRS requires companies to assess the substance of a transaction when determining whether multiple deliverables should be separated or combined for accounting purposes. Accordingly, the amendments in this Update are expected to more closely align the accounting for multiple-deliverable revenue arrangements in U.S. GAAP with IFRS.

Because U.S. GAAP provides detailed guidance about separation and allocation of multiple-deliverable arrangements in comparison to the guidance of IFRS, differences may still exist in the separation and allocation of consideration with respect to some multiple-deliverable arrangements after the amendments in this Update become effective. These differences may affect the timing or amount of revenue recognized for a deliverable.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–32. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Subtopic 605-25

2. Amend paragraphs 605-25-05-1 through 05-2, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-05-1 This Subtopic addresses ~~certain~~ some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, this Subtopic addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how arrangement consideration ~~should~~ shall be measured and allocated to the separate units of accounting in the arrangement.

605-25-05-2 ~~Many entities offer multiple solutions to~~ To meet their customers' ~~needs.~~needs, vendors often provide ~~Those solutions may involve the delivery or performance of~~ multiple products, services, ~~or~~ rights to use assets, or any combination thereof. These vendors transfer the deliverables to the customer and performance may occur at different times or over different periods of ~~time.~~time, and the customer's ~~In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. The continuing payment stream generally corresponds to the continuing performance, and the amount of the~~ payments for these deliverables may be fixed, variable ~~based on future performance~~, or a combination of fixed and variable ~~payment amounts~~.

3. Amend paragraph 605-25-15-3A, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-15-3A Those Topics may provide guidance with respect to whether and how to allocate consideration of a multiple-deliverable arrangement. Whether deliverables are within the scope of those other Topics is determined by the scope provisions of those Topics, without regard to the order of delivery of that item in the arrangement. The following describes the three categories into which the other Codification Topics fall and the application of this Subtopic or the other Topics in determining separate units of accounting and allocating arrangement consideration:

a. Other ~~Topic addresses~~ Topics address both separation and allocation. If another Topic provides guidance regarding the determination of separate units of accounting and how to allocate arrangement consideration to those separate units of accounting, the arrangement or the deliverables in the arrangement that is within the scope of that Topic shall be accounted for in accordance with the relevant provisions of that Topic rather than the guidance in this Subtopic.
b. Other ~~Topic addresses separation~~ Topics address separation, but not allocation. If another Topic provides guidance requiring separation of deliverables within the scope of that Topic from deliverables not within the scope of that Topic, but does not specify how to allocate arrangement consideration to each separate unit of accounting, such allocation shall be ~~performed~~ based on the ~~a~~ relative selling price of the deliverables ~~fair value basis~~ ~~using the entity's best estimate of the fair value of the deliverables~~ within the scope of that Topic and the deliverables not within the scope of that Topic. For example, leased assets are required to be accounted for separately under the guidance in Subtopics 840-20 and 840-30. See paragraph 605-25-55-3. (~~Solely for~~For purposes of the allocation between deliverables within the scope of another Topic and deliverables not within the scope of that other Topic, ~~an entity's best estimate of fair value is not limited to vendor-specific objective evidence of fair value or third-party evidence of fair value, as those concepts are~~ the selling price shall be determined using the guidance as discussed in paragraphs ~~605-25-30-68~~605-25-30-6A through 30-6B~~30-9~~.) Subsequent ~~accounting (identification~~identification of separate units of accounting and allocation of arrangement consideration ~~value thereto) for the value allocated~~ to the deliverables not subject to that other Topic would be governed by the provisions of this Subtopic.
c. Other ~~Topic addresses~~ Topics address neither separation nor allocation. If another Topic provides no guidance regarding the separation of the deliverables within the scope of that Topic from those deliverables that are not or the allocation of arrangement consideration to deliverables within the scope of that Topic and to those that are not, then the guidance in this Subtopic shall be followed for purposes of such separation and allocation. (For example, Subtopic 605-35 provides separation and allocation guidance [segmentation provisions] for deliverables within its scope. However, that Subtopic does not provide separation and allocation guidance ~~between~~ for deliverables within its scope and ~~other~~ deliverables not within its scope.) In such

circumstances, it is possible that a deliverable subject to the guidance of another Topic does not meet the criteria in paragraph 605-25-25-5 to be considered a separate unit of accounting. In that event, the arrangement consideration allocable to such deliverable shall be combined with the amount allocable to the other applicable undelivered items within the arrangement. The appropriate recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting.

4. Amend paragraph 605-25-15-4, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-15-4 The guidance in this Subtopic does not address when the criteria for revenue recognition are met or provide revenue recognition guidance ~~on the appropriate revenue recognition convention~~ for a given unit of accounting. For example, this Subtopic does not address when revenue attributable to a unit of accounting shall be recognized based on proportional performance. The timing of revenue recognition for a given unit of accounting ~~will depend~~depends on the nature of the deliverable(s) composing that unit of accounting ~~(and the corresponding revenue recognition convention)~~ and on whether the applicable criteria ~~general conditions~~ for revenue recognition have been met.

5. Amend paragraph 605-25-25-2, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-25-1 In an arrangement with multiple deliverables, the principles in paragraph 605-25-25-2 and application guidance in Section 605-25-30 and paragraphs 605-25-25-4 through 25-6 shall be used to determine both of the following:

a. Units of accounting, that is, whether the arrangement should be divided into separate units of accounting
b. Measurement and allocation of arrangement consideration, that is, how the arrangement consideration should be measured and allocated among the separate units of accounting.

605-25-25-2 The principles applicable to this Subtopic are as follows:

a. Revenue arrangements with multiple deliverables shall be divided into separate units of accounting if the deliverables in the arrangement meet the criteria in paragraph 605-25-25-5.
b. Arrangement consideration shall be allocated among the separate units of accounting based on their relative selling prices ~~fair values~~ (or as otherwise provided in paragraph~~paragraphs~~ 605-25-30~~-2 through 30-3~~4). The amount allocated to the delivered unit of accounting ~~items~~ is limited as discussed in paragraph 605-25-30-5.

c. Applicable revenue recognition criteria shall be considered separately for separate units of accounting.

6. Amend paragraphs 605-25-25-5 through 25-6, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-25-3 In applying the guidance in this Subtopic, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and shall, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary.

605-25-25-4 A vendor shall evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. That evaluation shall be performed at the inception of the arrangement and as each item in the arrangement is delivered.

605-25-25-5 In an arrangement with multiple deliverables, the delivered item or items shall be considered a separate unit of accounting if both ~~all~~ of the following criteria are met:

a. The delivered item or items have value to the customer on a standalone basis. The item or items have value on a standalone basis if they are sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis. In the context of a customer's ability to resell the delivered item(s), this criterion does not require the existence of an observable market for the deliverable(s).
b. Subparagraph superseded by Accounting Standards Update 2009-13.~~There is objective and reliable evidence of the fair value of the undelivered item(s).~~
c. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in the control of the vendor.

See the flowchart in paragraph 605-25-55-1 for an illustration of these criteria. The criteria for dividing an arrangement into separate units of accounting shall be applied consistently to arrangements with similar characteristics and in similar circumstances.

605-25-25-6 ~~The arrangement consideration allocable to the~~ A delivered item or items that do not qualify as a separate unit of accounting within the arrangement shall be combined with the ~~amount allocable to the~~ other applicable undelivered item(s) within the arrangement. The allocation of arrangement consideration and the ~~appropriate~~ recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting.

7. Amend paragraph 605-25-30-2, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-30-1 The amount of total arrangement consideration must be fixed or determinable other than with respect to the impact of either of the following:

a. Any refund rights or other concessions (collectively referred to as refund rights) to which the customer may be entitled
b. Performance bonuses to which the vendor may be entitled.

605-25-30-2 ~~If there is objective and reliable evidence of fair value (as discussed in paragraphs 605-25-30-7 through 30-9) for all units of accounting in an arrangement, the arrangement consideration shall be allocated to the separate units of accounting based on their relative fair values (the relative fair value method), except as specified in paragraph 605-25-30-4. However, there may be cases in which there is objective and reliable evidence of the fair value(s) of the undelivered item(s) in an arrangement but no such evidence for the delivered item(s). In those cases, the residual method shall be used to allocate the arrangement consideration.~~ Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method), except as specified in paragraphs 605-25-30-4 through 30-5. When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence of selling price, if it exists; otherwise, third-party evidence of selling price (as discussed in paragraph 605-25-30-6B). If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable (as discussed in paragraph 605-25-30-6C) when applying the relative selling price method. In deciding whether the vendor can determine vendor-specific objective evidence or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

8. Supersede paragraph 605-25-30-3, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-30-3 Paragraph superseded by Accounting Standards Update 2009-13.~~Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item(s). The reverse residual method (that is, using a residual method to determine the fair value of an undelivered item) is not an acceptable method of allocating arrangement consideration to the separate units of accounting, except as described in the following paragraph.~~

9. Amend paragraphs 605-25-30-4 through 30-5, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-30-4 To the extent that any separate unit of accounting in the arrangement ~~(including a delivered item)~~ is required by guidance included in another Topic ~~under generally accepted accounting principles (GAAP)~~ to be recorded at fair value (and marked to market each reporting period thereafter), the amount allocated to that unit of accounting shall be its fair value. Under those circumstances, the remainder of arrangement consideration shall be allocated to the other units of accounting in accordance with the requirements in ~~paragraphs~~paragraph 605-25-30-2 ~~through 30-3~~.

605-25-30-5 The amount allocable to ~~a~~ the delivered ~~item or items~~ unit or units of accounting is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the noncontingent amount). That is, the amount allocable to the delivered ~~item or items~~ unit or units of accounting is the lesser of the amount otherwise allocable in accordance with paragraphs 605-25-30-2 and ~~through 30-4~~605-25-30-4, or the noncontingent amount. Additionally, although Subtopic 605-15 may affect the amount of revenue recognized, the allocated amount is not adjusted for the impact of a general right of return pursuant to that Subtopic. See the Example in paragraphs 605-25-55-13 through 55-18.

605-25-30-6 The measurement of revenue per period shall be limited to the measurement that results from assuming that cancellation of the arrangement will not occur. The amount recorded as an asset for the excess of revenue recognized under the arrangement over the amount of cash or other consideration received from the customer since the inception of the arrangement shall not exceed all amounts to which the vendor is legally entitled, including cancellation fees (in the event of customer cancellation). However, whether a vendor intends to enforce its contractual rights in the event of customer cancellation shall be considered in determining the extent to which an asset should be recorded.

10. Add paragraphs 605-25-30-6A through 30-6C, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-30-6A Vendor-specific objective evidence of selling price is limited to either of the following:

a. The price charged for a deliverable when it is sold separately
b. For a deliverable not yet being sold separately, the price established by management having the relevant authority (it must be probable that the price, once established, will not change before the separate introduction of the deliverable into the marketplace).

605-25-30-6B Third-party evidence of selling price is the price of the vendor's or any competitor's largely interchangeable products or services in standalone sales to similarly situated customers.

605-25-30-6C The vendor's best estimate of selling price shall be consistent with the objective of determining vendor-specific objective evidence of selling price for the deliverable; that is, the price at which the vendor would transact if the deliverable were sold by the vendor regularly on a standalone basis. The vendor shall consider market conditions as well as entity-specific factors when estimating the selling price.

11. Amend paragraph 605-25-30-7, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-30-7 Contractually stated prices for individual products or services in an arrangement with multiple deliverables shall not be presumed to be representative of vendor-specific objective evidence, third-party evidence, or a vendor's best estimate of selling price.~~fair value. The best evidence of fair value is the price of a deliverable when it is regularly sold on a standalone basis.~~

12. Supersede paragraphs 605-25-30-8 through 30-9, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-30-8 Paragraph superseded by Accounting Standards Update 2009-13.~~Fair value evidence often consists of entity-specific or vendor-specific objective evidence of fair value. As discussed in paragraphs 985-605-25-6 through 25-7, vendor-specific objective evidence of fair value is limited to the following:~~

~~a. The price charged for a deliverable when it is sold separately~~
~~b. For a deliverable not yet being sold separately, the price established by management having the relevant authority (it must be probable that the price, once established, will not change before the separate introduction of the deliverable into the marketplace).~~

605-25-30-9 Paragraph superseded by Accounting Standards Update 2009-13.~~The use of vendor-specific objective evidence of fair value is preferable in all circumstances in which it is available. Third-party evidence of fair value (for example, prices of the vendor's or any competitor's largely interchangeable products or services in sales to similarly situated customers) is acceptable if vendor-specific objective evidence of fair value is not available.~~

13. Amend paragraph 605-25-50-1, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-50-1 ~~A vendor shall disclose both of the following:~~The objective of the disclosure guidance in this Section is to provide both qualitative and quantitative information about a vendor's revenue arrangements and about the significant judgments made about the application of this Subtopic and changes in those judgments or in the application of this Subtopic that may significantly affect the timing or amount of revenue recognition. Therefore, in addition to the required disclosures, a vendor shall also disclose other qualitative and quantitative information as necessary to comply with this objective.

- ~~a. Its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting)~~
- ~~b. The description and nature of such arrangements, including performance-, cancellation-, termination-, or refund-type provisions.~~

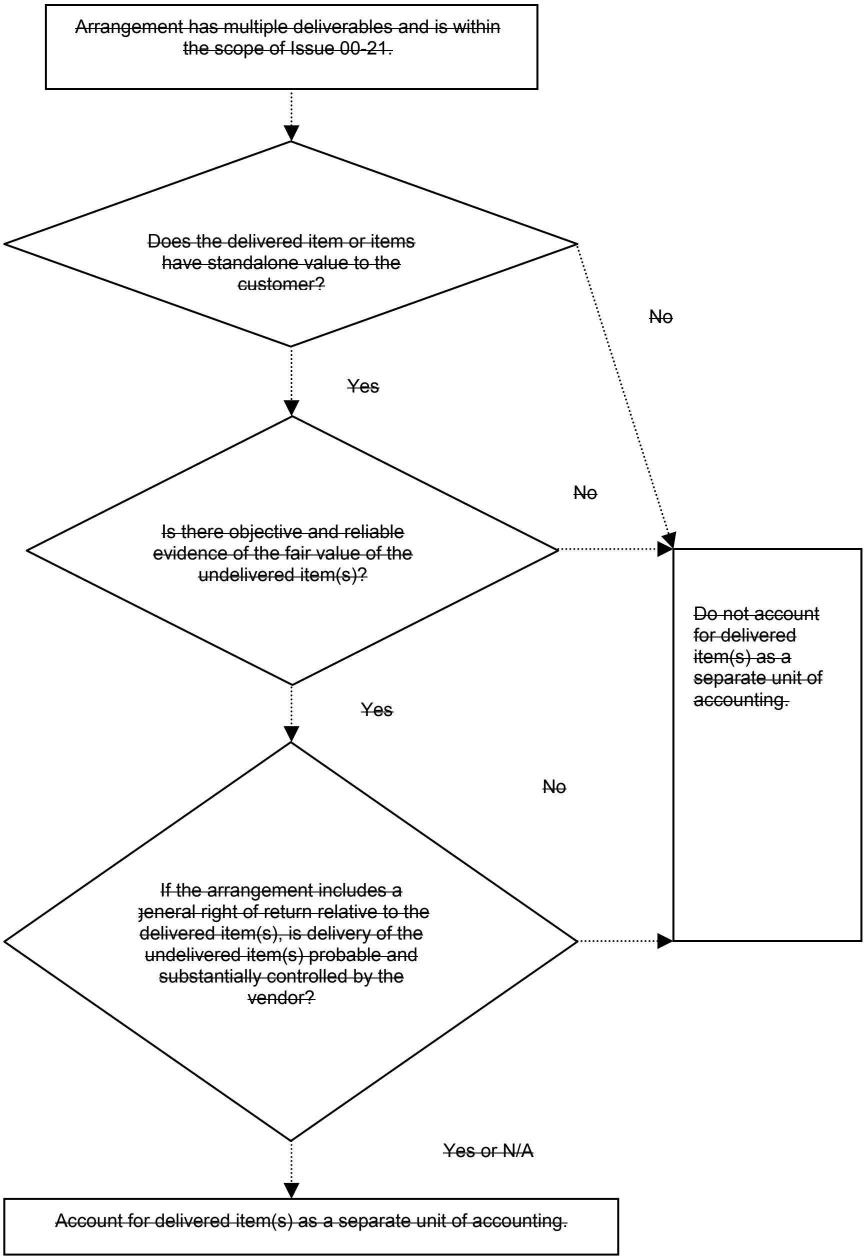
14. Add paragraph 605-25-50-2, with a link to a transition paragraph 605-25-65-1, as follows:

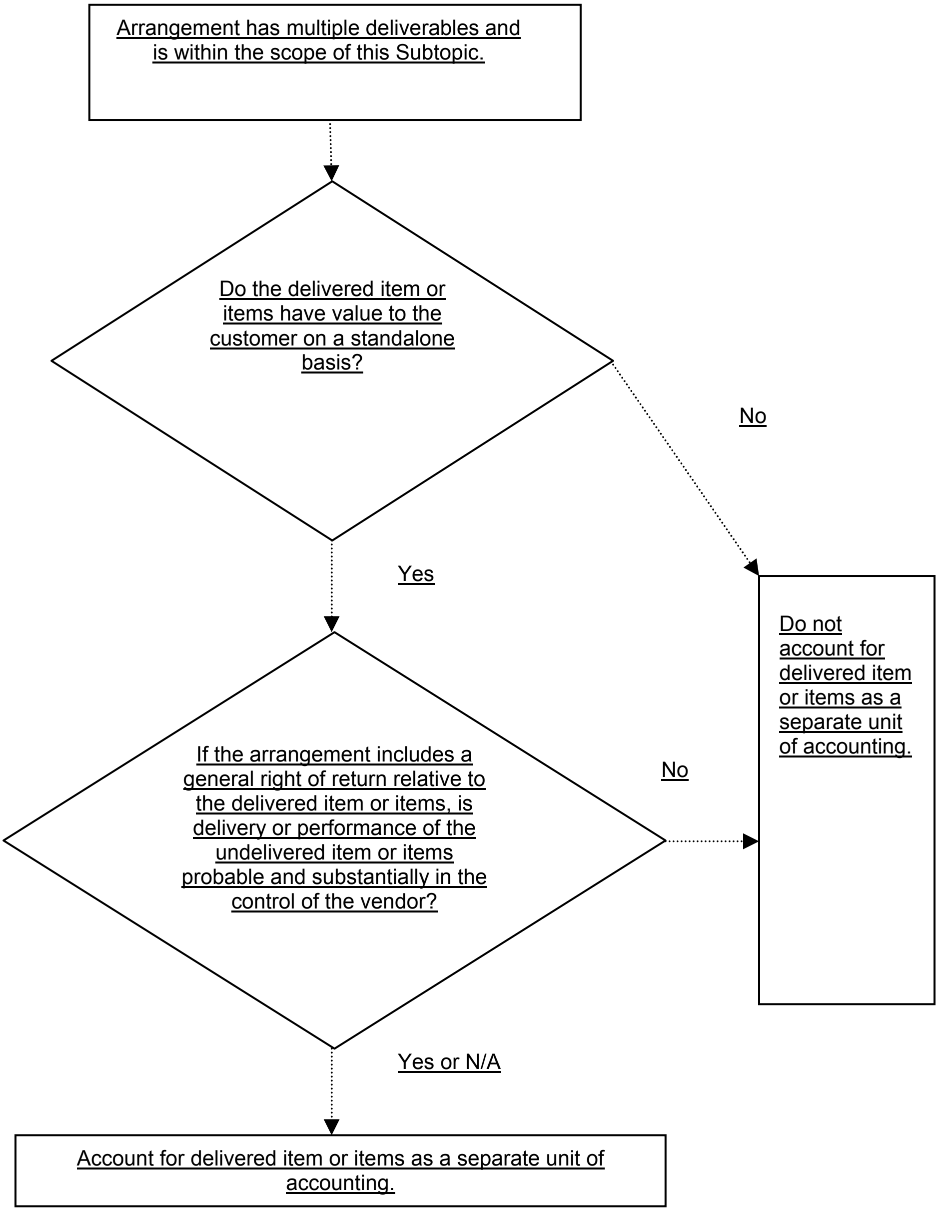
605-25-50-2 A vendor shall disclose all of the following information by similar type of arrangement:

- a. The nature of its multiple-deliverable arrangements
- b. The significant deliverables within the arrangements
- c. The general timing of delivery or performance of service for the deliverables within the arrangements
- d. Performance-, cancellation-, termination-, and refund-type provisions
- e. A discussion of the significant factors, inputs, assumptions, and methods used to determine selling price (whether vendor-specific objective evidence, third-party evidence, or estimated selling price) for the significant deliverables
- f. Whether the significant deliverables in the arrangements qualify as separate units of accounting, and the reasons that they do not qualify as separate units of accounting, if applicable
- g. The general timing of revenue recognition for significant units of accounting
- h. Separately, the effect of changes in either the selling price or the method or assumptions used to determine selling price for a specific unit of accounting if either one of those changes has a significant effect on the allocation of arrangement consideration.

15. Amend paragraph 605-25-55-1, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-1 This diagram represents an overview of the provisions of this Subtopic with respect to determining the separate units of accounting in an arrangement and should, therefore, be reviewed in conjunction with the guidance in the entire Subtopic.


~~Arrangement has multiple deliverables and is within the scope of Issue 00-21.~~
~~Does the delivered item or items have standalone value to the customer?~~
~~No~~
~~Yes~~
~~Is there objective and reliable evidence of the fair value of the undelivered item(s)?~~
~~No~~
~~Do not account for delivered item(s) as a separate unit of accounting.~~
~~Yes~~
~~No~~
~~If the arrangement includes a general right of return relative to the delivered item(s), is delivery of the undelivered item(s) probable and substantially controlled by the vendor?~~
~~Yes or N/A~~
~~Account for delivered item(s) as a separate unit of accounting.~~


Arrangement has multiple deliverables and is within the scope of this Subtopic.
Do the delivered item or items have value to the customer on a standalone basis?
No
Yes
Do not account for delivered item or items as a separate unit of accounting.
If the arrangement includes a general right of return relative to the delivered item or items, is delivery or performance of the undelivered item or items probable and substantially in the control of the vendor?
No
Yes or N/A
Account for delivered item or items as a separate unit of accounting.

16. Amend paragraphs 605-25-55-2 through 55-3, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-2 The following provides implementation guidance on how to allocate arrangement consideration to each separate unit of accounting when a ~~multiple element~~ multiple-deliverable arrangement contains deliverables that are within the scope of other ~~Codification~~ Topics and those Topics only provide guidance on how to separate the deliverables (see paragraph 605-25-15-3A(b)).

605-25-55-3 For example, leased assets are required to be accounted for separately under the guidance in Subtopics 840-20 and 840-30. Consider an arrangement that includes the lease of equipment under an operating lease, the maintenance of the leased equipment throughout the lease term (executory cost), and the sale of additional equipment unrelated to the leased equipment. The arrangement consideration should be allocated between the deliverables subject to the guidance in Subtopic 840-20 and the other deliverables using the ~~on a~~ relative selling price method.~~fair value basis using the entity's best estimate of fair value of the deliverables.~~ (Although ~~that Subtopic~~ Topic 840 does not provide guidance regarding the accounting for executory costs, it does provide guidance regarding the allocation of arrangement consideration between the lease and the executory cost elements of an arrangement. Therefore, this example refers to the leased equipment and the related maintenance as deliverables subject to the guidance in that ~~Subtopic~~Topic.) The guidance in ~~that Subtopic~~ Topic 840 would then be applied to separate the maintenance from the leased equipment and to allocate the related arrangement consideration to those two deliverables. This Subtopic would be applied to further separate any deliverables not subject to the guidance in ~~that Subtopic~~ Topic 840 and to allocate the related arrangement consideration.

17. Amend paragraphs 605-25-55-7 through 55-9 and paragraphs 605-25-55-11 through 55-12, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-7 The following Examples provide guidance only with respect to determining whether a multiple-deliverable revenue arrangement contains more than one unit of accounting and, if so, how to measure and allocate the arrangement consideration to the separate units of accounting. As discussed in paragraph 605-25-15-4, this Subtopic (including the Examples) does not address (for any unit of accounting) when the criteria for revenue recognition are met or provide revenue recognition guidance~~ on the appropriate revenue recognition convention~~. The examples illustrate potential application of this Subtopic based on the limited facts presented. The evaluations following each of the example fact patterns are not intended to represent the only manner in which the guidance in this Subtopic could be applied. Additional facts would most likely be required to fully evaluate the deliverables, units of accounting, and presentation issues related to these arrangements.

605-25-55-8 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and the ~~fair value~~ allocation and contingencies guidance in paragraphs 605-25-30-2 through 30-5.

605-25-55-9 CellularCo runs a promotion in which new customers who sign a two-year contract receive a free phone. ~~The contract requires the customer to pay a cancellation fee of \$300 if the customer cancels the contract.~~ There is a one-time activation fee of \$50 and a monthly fee of \$40 for the ongoing service. The same monthly fee is charged by CellularCo regardless of whether a free phone is provided. The phone costs CellularCo \$100. Further, assume that CellularCo frequently sells the phone separately for \$120. CellularCo is not required to refund any portion of the fees paid for any reason. CellularCo is a sufficiently capitalized, experienced, and profitable business and has no reason to believe that the two-year service requirement will not be met.

605-25-55-10 CellularCo is considering whether the phone and the phone service (that is, the airtime) are separable deliverables in the arrangement. The activation fee is simply considered additional arrangement consideration to be allocated. The phone and activation are delivered first, followed by the phone service, which is provided over the two-year period of the arrangement.

605-25-55-11 Based on an evaluation of the circumstances, the first condition for separation is met for the phone. That is, the phone has value on a standalone basis because it is sold separately by CellularCo. The second condition is also met because ~~for separation also is met because objective and reliable evidence of fair value exists for the phone service. Finally,~~ there are no general rights of return in this arrangement. Therefore, the phone and the phone service should be accounted for as separate units of accounting.

605-25-55-12 The total arrangement consideration is \$1,010. The ~~fair value~~ selling price of the phone service is \$960 (\$40 × ~~\$40x~~ 24 months), the price charged by CellularCo when sold separately. The ~~fair value~~ selling price of the phone is \$120, the price of the phone when sold separately by CellularCo. Without considering whether any portion of the amount allocable to the phone is contingent upon CellularCo's providing the phone service, CellularCo would allocate the arrangement consideration on a relative ~~fair value~~ selling price basis as follows: \$112.22 [\$1,010 × (\$120 ÷ [\$120 + \$960])] to the phone and \$897.78 [~~\$1,010×~~\$1,010 × (\$960 ÷ [\$120 + \$960])] to the phone service. However, because a free phone is provided in the arrangement and the customer has no obligation to CellularCo if phone service is not provided, \$62.22 (assuming the customer has paid the nonrefundable activation fee) is contingent upon CellularCo's providing the phone service. Therefore, the amount allocable to the phone is limited to \$50 (\$112.22 – ~~–~~ \$62.22), and the amount allocable to the phone service is increased to \$960.

18. Amend paragraphs 605-25-55-15 and 605-25-55-17, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-13 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and contingencies guidance in paragraph 605-25-30-5.

605-25-55-14 Entity C sells high-speed aerosol can manufacturing equipment. Entity C sells a complete manufacturing process, which consists of Equipment X, Y, and Z. Entity C does not sell Equipment X, Y, and Z separately; however, other entities do sell the same equipment separately and there is a market for used equipment. Installation is not considered in this Example.

605-25-55-15 Entity C is evaluating ~~revenue recognition~~ whether Equipment X, Y, and Z are separate units of accounting under the following scenario.

605-25-55-16 Entity C delivered Equipment X and Z on March 27, but did not deliver Equipment Y until April 6. Without Equipment Y, the customer does not have use of Equipment X and Z. However, there is an active market for new Equipment X, Y, and Z on a separate basis, as the equipment is often bought separately from other vendors as replacements become necessary. The contract provides that if all pieces of equipment are not delivered, the customer may return Equipment X and Z and have no liability to Entity C. The contract requires delivery of all equipment prior to June 1, and Entity C has sufficient production capacity and inventory to deliver all of the equipment prior to that contractual deadline.

605-25-55-17 Based on an evaluation of the circumstances, the first condition for separation is met for Equipment X and Z. Equipment X and Z have value on a standalone basis because they are sold separately by other vendors. The second condition ~~for separation~~ is also ~~is~~ met because ~~sufficient objective and reliable evidence of the fair value exists for Equipment Y based on the prices charged for the separate pieces of equipment by other unrelated vendors. Finally,~~ there is no general right of return in the arrangement.

605-25-55-18 Therefore, Equipment X, Y, and Z should be accounted for as separate units of accounting. However, even though accounted for as separate units of accounting, the arrangement consideration allocable to both Equipment X and Z is $0 because the full amount otherwise allocable to those separate deliverables is contingent upon the delivery of Equipment Y.

19. Amend paragraph 605-25-55-19, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-19 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and allocation guidance in paragraph~~paragraphs~~ 605-25-30-2 ~~through 30-3~~.

20. Amend paragraphs 605-25-55-23 through 55-29, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-20 Entity E is an experienced manufacturer of equipment used in the construction industry. Entity E's products range from small to large individual pieces of automated machinery to complex systems containing numerous components. Unit selling prices range from $200,000 to $2.5 million. Unit selling prices are quoted inclusive of installation.

605-25-55-21 Each equipment model has standard performance specifications and is not otherwise customized for the specific needs of a buyer. Entity E extensively tests the equipment against those specifications prior to shipment. The installation process does not involve changes to the features or capabilities of the equipment and does not require proprietary information about the equipment in order for the installed equipment to perform to specifications.

605-25-55-22 While there are others in the industry with sufficient knowledge about the installation process for the equipment, as a practical matter, most purchasers engage Entity E to perform the installation services. However, some customers choose not to have the equipment installation performed by Entity E for various reasons (for example, their proprietary use of the equipment, their preference that installation be performed by their own employees or other vendors with whom the customers have established relationships, or for their own convenience). If a potential customer wishes to purchase equipment without installation, Entity E will not reduce the quoted selling price for the commensurate value of the installation. If a customer chooses to purchase equipment without installation, there is only one deliverable.

605-25-55-23 Assume that a customer enters into an arrangement to purchase equipment with a price of $200,000 (the price at which Entity E regularly sells the equipment without installation) from Entity E and chooses to have Entity E perform the installation for that equipment. The customer is obligated to pay Entity E the arrangement consideration upon delivery of the equipment. The price of the installation service when it is performed by vendors other than Entity E is $8,000 (third-party evidence of selling price). There are no refund rights (general or otherwise) in the arrangement. Entity E is considering whether the equipment and the installation service are separable units of accounting in the arrangement.

605-25-55-24 Based on an evaluation of the circumstances, the first condition for separation is met for the equipment. The equipment has standalone value as it is sometimes sold separately~~ by Entity E~~. The second condition for separation is also ~~met.~~met because~~ Objective and reliable evidence of the fair value for the installation exists. There is sufficient evidence of the fair value of the installation on a separate component basis (as evidenced by the amount charged by independent third parties). Finally,~~ there are no general refund rights. Therefore, the equipment and the installation are considered separate units of accounting in the arrangement.

605-25-55-25 Regardless of whether the installation is performed, the total arrangement consideration is $200,000. Entity E has either vendor-specific objective evidence or third-party evidence of selling price for all units of accounting in the arrangement. ~~Therefore, consideration in the arrangement would be allocated on a relative fair value basis. In this case, the~~The arrangement consideration of $200,000 ~~would~~ should be allocated to the separate units of accounting using the ~~based on their~~ relative selling price method ~~fair values~~. Thus, allocation of the arrangement consideration would be $192,308 [$200,000 × ($200,000 ÷ [$200,000 + $8,000])] to the equipment and $7,692 [$200,000 × ($8,000 ÷ [$200,000 + $8,000])] to the installation service. Additionally, none of the amount allocable to the equipment is contingent upon performing the installation.

605-25-55-26 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and the allocation guidance in paragraph 605-25-30-2.~~residual method allocation in paragraph 605-25-30-3.~~

605-25-55-27 Entity A is an established auto dealer. Entity A's service center provides all scheduled maintenance services (including oil changes) at no additional charge (other than for parts) for any customer who purchases an automobile from Entity A for the period that the customer owns the automobile. The customer also may choose to have the maintenance services performed by others without affecting the vehicle warranty, but most customers utilize Entity A's maintenance services unless they move to a distant location. Neither Entity A nor any other dealer sells the automobile without the lifetime maintenance services. However, Entity A sells maintenance services separately to customers who did not purchase their vehicles from Entity A. The automobiles are sold subject to a limited warranty and there are no refund rights in the arrangement. Customers are obligated to Entity A for all arrangement consideration upon taking delivery of the automobile. Since lifetime maintenance services are not ~~sold~~ separately priced when a customer purchases an automobile from ~~by~~ Entity A, they are not within the scope of Subtopic 605-20.

605-25-55-28 Based on an evaluation of the circumstances, the first condition for separation is met for the automobile because, even though the automobile is not sold separately by any vendor, it is considered to have standalone value because the customer could resell the automobile on a standalone basis. The second condition for separation also is met because~~met. There is sufficient evidence of the fair value of the maintenance services on a separate component basis (as evidenced by the amount charged on a standalone basis by Entity A for maintenance services and data available from which to estimate the volume and types of maintenance services provided during a typical customer's ownership of the vehicle). Finally,~~ there are no refund rights (general or otherwise) in the arrangement. Therefore, the automobile and the maintenance services should be considered separate units of accounting in the arrangement.

605-25-55-29 Because no entity sells the automobile separately, neither vendor-specific objective evidence nor third-party evidence of selling price exists for the automobile. However, there is vendor-specific objective evidence of selling price of the maintenance services (as evidenced by the amount charged on a standalone basis by Entity A for maintenance services and data available from which to estimate the volume and types of maintenance services provided during a typical customer's ownership of the vehicle). As a result, when applying the relative selling price method, Entity A should use its best estimate of selling price for the automobile and vendor-specific objective evidence of selling price for the maintenance. ~~Consideration in the arrangement should be allocated using the residual method. The fair value of the maintenance services should be determined as described in the preceding paragraph. The remaining arrangement consideration should be allocated to the automobile.~~ Additionally, none of the amount allocable to the automobile is contingent upon providing the maintenance services.

21. Amend paragraphs 605-25-55-30, 605-25-55-32, and 605-25-55-34 through 55-36, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-30 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and the interplay between the accounting for a separately priced maintenance agreement in Subtopic 605-20 and the allocation guidance in paragraph 605-25-30-2.~~paragraphs 605-25-30-2 through 30-3.~~

605-25-55-31 Entity S is an experienced home appliance dealer. Entity S also offers a number of services together with the home appliances that it sells. Assume that Entity S regularly sells Appliance W on a standalone basis. Entity S also sells installation services and maintenance services for Appliance W. However, Entity S does not offer installation or maintenance services to customers that buy Appliance W from other vendors. Pricing for Appliance W is as follows:

a. Appliance W only: $ 800
b. Appliance W with installation service: $ 850
c. Appliance W with maintenance services: $ 975
d. Appliance W with installation and maintenance services: $1,000.

605-25-55-32 In each instance in which maintenance services are provided, the maintenance service is separately priced within the arrangement at $175. Additionally, ~~Note also that~~ the incremental amount charged by Entity S for installation of $50 approximates the amount charged by independent third parties.

605-25-55-33 Appliance W is sold subject to a general right of return. If a customer purchases Appliance W with installation and/or maintenance services, and Entity S does not complete the services satisfactorily, the customer is entitled to a refund only of the portion of the fee that exceeds $800.

605-25-55-34 Assume that a customer purchases Appliance W with both installation and maintenance services for $1,000. Based on its experience, Entity S believes that it is probable that installation of the equipment will be performed satisfactorily to the customer. The maintenance services are priced separately and should be accounted for based on the guidance in Subtopic 605-20. Entity S is evaluating whether Appliance W and the installation service represent separate units of accounting.~~ (The maintenance services are separately priced at $175 and should be accounted for based on the guidance in Subtopic 605-20.)~~

605-25-55-35 Based on an evaluation of the circumstances, the first condition for separation is met for Appliance W because it sometimes is sold separately by Entity S. The second condition for separation is also met~~. There is objective and reliable evidence of the fair value of the installation on a separate component basis (as evidenced by the amount charged by independent third parties). The third condition for separation is met~~ because, even though a general right of return exists, performance of the appliance installation is probable and within the control of Entity S. Therefore, Appliance W and installation should be accounted for as separate units of accounting.

605-25-55-36 Entity S would allocate $175 of the arrangement consideration to the maintenance services based on the guidance in Subtopic 605-20. Without considering whether any of the amount otherwise allocable to Appliance W is contingent upon the performance of the installation, Entity S would allocate the remainder of the arrangement consideration ($825) to Appliance W and the installation service <u>using the relative selling price method.</u> ~~in proportion to their fair values.~~ The ~~fair value~~ <u>vendor-specific objective evidence of selling price</u> of Appliance W is its price when sold separately ($800), and the ~~fair value~~ <u>third-party evidence of selling price</u> of the installation service is the amount charged by independent third parties, which approximates $50. Therefore, the amounts ~~otherwise~~ allocable to Appliance W and to the installation services are $776 [$825 × ($800 ÷ [$800 + $50])] and $49 [$825 × ($50 ÷ [$800 + $50])], respectively. Since the customer is entitled to a refund only of the portion of the fee that exceeds $800 if the installation is not performed, no portion of the amount allocable to Appliance W is contingent upon that installation.

22. Amend paragraphs 605-25-55-37 through 55-47 and their related headings, with a link to a transition paragraph 605-25-65-1, as follows:

> > Example 6: <u>Human Resources Outsourcing Services</u>~~Biotech License, Research and Development, and Contract Manufacturing Agreement~~

605-25-55-37 <u>This Example illustrates an approach to estimating the selling price of deliverables under paragraph 605-25-30-6C when neither vendor-specific objective evidence nor third-party evidence of selling price exists. The approach in this Example should not be considered the only appropriate approach to estimating the selling price of the deliverables</u>.~~This Example illustrates the combined unit-of-accounting method in paragraph 605-25-25-6 and the residual method of allocation in paragraph 605-25-30-3.~~

605-25-55-38 <u>Entity HR provides its customers with human resource solutions (for example, support and guidance in areas such as employee relations, payroll and taxes, health benefits administration, 401(k) administration). Customers may do one of the following:</u>

a. Choose a prepackaged bundle of services.
b. Customize an existing bundle of services.
c. Select the individual services they require.

Because of the many services provided by Entity HR and its customers' varying needs, no two arrangements are exactly alike. Entity HR prices its arrangements on the basis of the unique bundle of services to be provided. As a result, Entity HR does not have vendor-specific objective evidence of selling price for any individual service that it provides. Although each service is sold separately by other vendors, and while Entity HR has some information about its competitors' pricing, it is unable to obtain third-party evidence of selling price for any individual service.~~Biotech Company (Biotech) enters into an agreement with Pharmaceutical Company (Pharma). The agreement includes all of the following:~~

~~a. Biotech licensing certain rights to Pharma~~
~~b. Biotech providing research and development services to Pharma~~
~~c. Biotech contract manufacturing product for Pharma.~~

605-25-55-39 Assume that on January 1, 20X1, Entity HR begins providing human resource solution services to Customer Y under a three-year arrangement. Under the arrangement, Entity HR agrees to provide Customer Y with payroll processing, three periodic training events, employee handbook development, and an executive compensation assessment. The executive compensation assessment and employee handbook development are expected to be completed by June 30, 20X1, and 20X2, respectively. Entity HR expects to provide one training event annually. Total compensation under the arrangement is $1,275,000. Entity HR receives compensation under the arrangement as follows: an upfront payment of $375,000 and monthly payments of $25,000. There are no general refund rights included in the arrangement.~~Additional details on each of those aspects of the agreement are as follows:~~

~~a. License. Biotech licenses certain rights on an exclusive basis to Pharma for a period of 10 years. The license gives Pharma the exclusive right to market, distribute, and manufacture Drug B as developed using Technology A. Biotech retains all ownership rights to Technology A and Drug B. There are no when-and-if-available clauses or other performance obligations associated with the license, except as described in this paragraph.~~
~~b. Research and development. Biotech agrees to provide research and development services on a best-efforts basis to Pharma. Biotech agrees to devote four full-time equivalents to the research and development activities, and Pharma expects to devote several full-time equivalents to the research and development activities as well. The objective of the research and development services is to develop Drug B using Technology A. The ultimate objective is to receive Food and Drug Administration approval on Drug B.~~

~~c. Contract manufacturing. If successfully developed, Biotech agrees to manufacture Drug B for Pharma for a period of five years.~~

605-25-55-40 Entity HR is evaluating whether all of the following represent separate units of accounting and how to allocate arrangement consideration to the separate units of accounting:

a. Payroll processing
b. Periodic training
c. Employee handbook development
d. Executive compensation assessment.~~Compensation under the arrangement is as follows:~~

~~a. Biotech receives $5 million up-front upon signing the agreement.~~
~~b. Biotech receives $2 million upon meeting each of 4 defined milestones ($8 million in total if all 4 defined milestones are met).~~
~~c. Biotech receives $250,000 per year for each full-time equivalent that performs research and development activities.~~
~~d. Biotech receives cost plus 30 percent for manufacturing Drug B (that is, Biotech will receive compensation for its direct costs plus a 30 percent margin for manufacturing Drug B).~~

~~None of these payments, once received, are refundable, even if Food and Drug Administration approval is never received. In addition, while Biotech must perform on a best-efforts basis, it is not obligated to achieve the milestones.~~

605-25-55-41 Based on an evaluation of the circumstances, Entity HR concludes that there are no units of accounting at inception of the arrangement because no item in the arrangement has been delivered at that date. However, Entity HR will reassess whether a delivered item should be considered a separate unit of accounting each time it performs under the arrangement.~~While Biotech has licensed certain rights related to Technology A to other parties, Biotech has not licensed Technology A to others for use in the development of Drug B. Likewise, Biotech has not licensed the marketing, distribution, or manufacturing rights of Drug B to any other party.~~

605-25-55-42 Entity HR determines that each of the deliverables in the arrangement has standalone value. Because Entity HR does not have either vendor-specific objective evidence or third-party evidence of selling price for the deliverables in the arrangement, Entity HR must use its best estimate of selling price for each deliverable when allocating arrangement consideration under the relative selling price method.~~Pharma must use Biotech to perform the research and development activities necessary to develop Drug B using Technology A because the know-how and expertise related to Technology A is proprietary to Biotech. In other words, Biotech is the only party capable of performing the level and type of research and development services required by Pharma under the agreement. Biotech has determined that the fees charged for the research and~~

~~development services (that is, the $250,000 per year for each full-time equivalent that performs research and development activities) are competitive with what other third-party vendors charge for similar research and development services (that is, they represent the fair value of those services). In addition, Biotech regularly provides similar research and development services to other customers for comparable fees. The fees earned by Biotech if it reaches the milestones represent performance bonuses that are contingent only on performance of the research and development services (that is, they are unrelated to the contract manufacturing deliverable and are not part of the fair value of the research and development services).~~

605-25-55-43 In estimating the selling price for the deliverables, Entity HR considered all of the following:

a. Its internal costs
b. Its profit objectives
c. The pricing practices it used to establish the bundled price for its services
d. Whether any market constraints exist that may limit its selling price (for example, whether competitors could charge a lower price for the same service or whether the price for the service exceeds the cost savings to its customers). Entity HR believes that as the price for its service begins to exceed the customers' internal cost, the customers will be less likely to purchase the service.~~Assuming that the contract manufacturing provided by Biotech could be provided by other contract manufacturers (who would not be dependent on Biotech for critical ingredients), the license agreement gives Pharma the right to manufacture the drug; no proprietary information related to the manufacturing process would preclude other parties from being able to manufacture Drug B. Biotech has determined that cost plus 30 percent is competitive with what other third-party contract manufacturers charge for manufacturing drugs similar to Drug B (that is, it represents the fair value of those services). In addition, Biotech regularly provides similar contract manufacturing services for other customers for comparable fees.~~

605-25-55-44 When determining the price for its bundled services, Entity HR typically applies a gross profit margin to the cost (primarily labor and other time and expenses) it will incur in providing the contracted services. The profit margin varies with the types of services to be provided and generally includes a discount based on the number of services being purchased. For example, Entity HR typically includes the following gross profit margins, which have been developed over time (by a relevant, authorized level of management) on the basis of available market data and demand for the services:

a. A 26 percent gross profit margin on its payroll processing services

b. A 15 percent gross profit margin on its employee handbook development services and executive compensation assessments
c. A 22 percent gross profit margin on its training services before considering any discount on the total arrangement.

Entity HR believes that these returns are consistent with the gross margins sought by its competitors. In addition, Entity HR has no information that would indicate that a competitor would charge a price that could affect the price Entity HR could charge for its service, either by limiting the price that Entity HR could charge or by allowing Entity HR to increase its price. In addition, Entity HR's analysis also indicates that the price of the individual services calculated using its internal gross profit margins would be in a range in which the service would still be attractive to its customers (that is, the cost of the service would be less than the internal costs for the same service if the customers had to provide the service themselves).~~Based on an evaluation of the circumstances, there are three deliverables in this arrangement that should be considered for separation:~~

~~a. License~~
~~b. Research and development activities~~
~~c. Contract manufacturing.~~

605-25-55-45 Using its internal gross profit margins and the total estimated costs it will incur to deliver the remaining units of accounting and after considering market constraints, Entity HR estimates the selling price for the undelivered units of accounting as follows.

Cost to be incurred for payroll processing for 3 years	$976,250
(1 – Payroll processing gross profit margin of 26 percent)	÷ .74
Estimated selling price for payroll processing	1,319,257
Cost to be incurred for executive compensation assessment	45,223
(1 – Executive compensation assessment gross profit margin of 15 percent)	÷ .85
Estimated selling price for executive compensation assessment	53,204
Cost to be incurred for employee handbook	56,113
(1 – Employee handbook gross profit margin of 15 percent)	÷ .85
Estimated selling price for employee handbook	66,015
Cost to be incurred for 3 training events	40,706
(1 – Training event gross profit margin of 22 percent)	÷ .78
Estimated selling price for training events	52,187
Total estimated selling price of all deliverables	$1,490,663

~~The efforts expended by Biotech to reach each of the four defined milestones are considered part of the research and development activities and are not evaluated on a standalone basis. The fees earned by Biotech if it reaches the milestones represent performance bonuses that are contingent only on performance of the research and development services (that is, they are unrelated to the contract manufacturing deliverable).~~

605-25-55-46 Therefore, at January 1, 20X1, Entity HR allocates the arrangement consideration ($1,275,000) as follows (before determining whether any individual deliverable should be considered a separate unit of accounting).

Payroll processing		[1,275,000 × (1,319,257 ÷ 1,490,663)]		$1,128,392
Executive compensation		[1,275,000 × (53,204 ÷ 1,490,663)]		45,507
Employee handbook		[1,275,000 × (66,015 ÷ 1,490,663)]		56,464
3 training events		[1,275,000 × (52,187 ÷ 1,490,663)]		44,637
Total consideration				$1,275,000

~~The license deliverable does not meet the first criterion for separation. The license does not have standalone value to Pharma. Because Drug B has not yet been developed, the license is of no value to Pharma without the ensuing research and development activities using Technology A, which is proprietary to Biotech. Likewise, Pharma could not sell the license to another party (that is, without Biotech's agreeing to provide the research and development activities for that other party).~~

605-25-55-47 At the inception of the arrangement and as each item in the arrangement is delivered, Entity HR must perform an evaluation to determine whether the delivered item represents a separate unit of accounting. If the delivered item does not qualify as a separate unit of accounting, the arrangement consideration allocable to the delivered item shall be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement.~~On a combined basis, however, the license and research and development activities have value on a standalone basis. That is, in similar arrangements, Biotech has sold the license and research and development separately from the manufacturing process. Additionally, Pharma could sell that combined unit of accounting to another party.~~

23. Supersede paragraphs 605-25-55-48 through 55-50, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-48 Paragraph superseded by Accounting Standards Update 2009-13.~~The combined unit of accounting (license and research and development activities) also meets the second criterion for separation from the contract manufacturing because Biotech has objective and reliable evidence of the fair value of the contract manufacturing (based on what it and other third parties charge for that type of service).~~

605-25-55-49 Paragraph superseded by Accounting Standards Update 2009-13.~~Finally, there are no general rights of return in the arrangement. Therefore, the combined unit of accounting should be considered a separate unit of accounting in the arrangement.~~

605-25-55-50 Paragraph superseded by Accounting Standards Update 2009-13.~~Biotech has not entered into any other agreements in which it has licensed~~

~~the marketing, distribution, and manufacturing rights to Technology A for use in the development of Drug B and agreed to perform research and development activities to develop Technology A into Drug B. In addition, given the unique nature of Technology A, third-party fair value evidence for the combined unit of accounting also does not exist. As such, Biotech does not have objective and reliable evidence of the fair value of the combined unit of accounting. Based on that analysis, the method of allocating the arrangement consideration would be the residual method because fair value evidence exists for the contract manufacturing, but not the combined unit of accounting. Because the contract manufacturing deliverable is priced at its fair value, none of the other arrangement consideration should be allocated to the contract manufacturing deliverable.~~

24. Amend paragraphs 605-25-55-51 through 55-56, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-51 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and the allocation guidance in paragraph 605-25-30-2.~~residual method of allocation in paragraph 605-25-30-3.~~

605-25-55-52 Entity M manufactures and sells complex medical equipment to physicians and hospitals for medical scanning purposes. Prior to shipment, each piece of equipment is tested extensively to meet entity and Food and Drug Administration specifications. The equipment is shipped fully assembled, but some installation and setup is required. No other entities sell the same or largely interchangeable equipment.

605-25-55-53 Installation is a standard process, outlined in the owner's manual, consisting principally of uncrating, calibrating, and testing the equipment. A purchaser of the equipment could complete the process using the information in the owner's manual, although it would probably take significantly longer than it would take Entity M's technicians to perform the tasks. Although ~~While the process is not complex and does not involve proprietary information,~~ other vendors do not ~~provide the service.~~install Entity M's equipment, other vendors do provide largely interchangeable installation services for $25,000. Historically, Entity M has never sold the equipment without installation. ~~most~~Most installations are performed by Entity M ~~and are completed~~ within 7 to 24 days of shipment. Installation is included in the overall sales price of the equipment~~(that is, Entity M does not sell the equipment on a noninstalled basis) and has an estimated fair value of $20,000 (based on per diem rates for technician time)~~.

605-25-55-54 In addition, the customer must pay for cartridges that record images. ~~The retail price of each cartridge is $250. Company~~ Entity M is the only manufacturer of the cartridges ~~but also~~ and it only sells them on a standalone basis to wholesalers ~~wholesale basis~~ through a wide network of distributors. The distributors' retail price for each cartridge is $250. Each cartridge can handle only a specific number of scans. Once a cartridge is exhausted, a new one must be purchased in order to use the equipment. Entity M always sells its equipment with a starter supply of 20 cartridges.

605-25-55-55 The sales price of the arrangement that consists of the equipment, installation, and 20 cartridges is $400,000. The customer is obligated to pay in full upon delivery of the equipment. The customer is entitled to a refund of $25,000 if ~~Company~~ Entity M does not perform the installation or if the 20 cartridges are not delivered. On March 15, Entity M delivers the equipment and on April 5 delivers the 20 cartridges and performs the installation. Entity M is evaluating whether delivery of the equipment represents a separate unit of accounting.

605-25-55-56 Based on an evaluation of the circumstances, the first condition for separation is met for the equipment because, even though Entity M has never sold the equipment without the cartridges, a customer could resell the equipment (in a primary or secondary market). The second condition for separation also is met because ~~objective and reliable evidence of fair value exists for the cartridges and the installation based on third-party evidence and Entity M's entity-specific evidence of fair value. The third condition for separation is met because~~ there are no general rights of return involved in this arrangement. Therefore, the equipment should be accounted for as a separate unit of accounting.

25. Add paragraphs 605-25-55-56A through 55-56B, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-56A Entity M does not have vendor-specific objective evidence of selling price for the equipment because it does not sell the equipment separately (without installation services and cartridges). In addition, third-party evidence of selling price does not exist as no vendor separately sells the same or largely interchangeable equipment. Therefore, Entity M must use its best estimate of selling price when allocating arrangement consideration. For the cartridges, Entity M uses third-party evidence of the price charged when sold separately by its distributors ($5,000 = 20 × $250). In addition, Entity M has third-party evidence of selling price for the installation ($25,000).

605-25-55-56B In estimating its selling price for the equipment, Entity M considered its cost to produce the equipment, its profit margin for similar arrangements, customer demand, effect of competitors on Entity M's equipment, and other market constraints. After weighing the relevance of the available data points, Entity M estimates its standalone selling price for the equipment to be $385,000. Total selling price for all deliverables in the arrangement on a standalone basis is $415,000.

26. Amend paragraph 605-25-55-57, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-57 When applying the relative selling price method, Entity M should use its best estimate of selling price for the equipment, third-party evidence of selling price for the cartridges, and third-party evidence of selling price for the installation.~~The residual method should be used to allocate the arrangement consideration.~~ Accordingly, without considering whether any portion of the amount allocable to the equipment is contingent upon delivery of the other items, the amount ~~otherwise~~ allocable to the equipment, cartridges, and installation ~~would be~~ is as follows:

a. ~~$375,000 to the equipment ($400,000 - [$250 × 20] - $20,000)~~$371,084 to the equipment ($400,000 × [$385,000 ÷ 415,000])
b. ~~$5,000 to the cartridges ($250 × 20)~~$4,819 to the cartridges ($400,000 × [$5,000 ÷ 415,000])
c. ~~$20,000 to the installation.~~$24,097 to the installation ($400,000 × [$25,000 ÷ 415,000]).

Additionally, no portion of the amount allocable to the equipment is contingent upon the delivery of the cartridges or performance of the installation. That is, if the cartridges are not delivered and the installation is not performed, Entity M would be entitled to $375,000.

27. Amend paragraphs 605-25-55-58 through 55-61, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-58 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5, the ~~fair value~~ allocation guidance in paragraph~~paragraphs~~ 605-25-30-2~~ through 30-3~~, and the limitation in paragraph 605-25-30-5 to noncontingent amounts.

605-25-55-59 Entity B sells computer systems. On April 20, a customer purchases a computer system from Entity B for $1,000. The system consists of a central processing unit (CPU), a monitor, and a keyboard. Solely for purposes of simplifying this illustration of the application of the guidance in this Subtopic, it is assumed that ~~the CPU does not include software that is more-than-incidental to the products in the arrangement; therefore,~~ the provisions of Subtopic 985-605 do not apply. On April 30, Entity B delivers the CPU to the customer without the monitor or keyboard. Each of the items is regularly sold ~~can be purchased~~ separately at a ~~cost~~ price of $700 for the CPU, $300 for the monitor, and $100 for the keyboard. The CPU could function with monitors or keyboards manufactured by others, who have them readily available. The customer is entitled to a refund equal to the separate price of any item composing the system that is not delivered. The arrangement does not include any general rights of return. Entity B is evaluating whether delivery of the CPU represents a separate unit of accounting.

605-25-55-60 Based on an evaluation of the circumstances, the first condition for separation is met for the CPU, as it is sold separately by Entity B. The second condition for separation is met because ~~the fair values of the undelivered items (keyboard and monitor) are objectively and reliably determined based on the~~

~~price of that equipment when sold separately by Entity B. The third condition for separation is met because~~ there are no general rights of return. Therefore, the CPU would be accounted for as a separate unit of accounting.

605-25-55-61 Entity B has vendor-specific objective evidence of selling price for all deliverables in the arrangement as each is sold regularly on a standalone basis. Without considering whether any portion of the amount allocable to the CPU is contingent upon delivery of the other items, Entity B would allocate the arrangement consideration ~~on a~~ using the relative selling price method. ~~fair value basis.~~ Therefore, the portion of the arrangement fee otherwise allocable to the CPU is \$636.36 (\$1,000 × [\$700 ÷ \$1,100]), of which \$36.36 (\$636.36 – [\$1,000 – \$300 – \$100~~\$400~~]) is subject to refund if the monitor and keyboard are not delivered. Therefore, the amount allocable to the CPU is limited to \$600, which is the amount that is not contingent upon delivery of the monitor and keyboard.

28. Amend paragraphs 605-25-55-68 through 55-69, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-62 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and the limitation in paragraph 605-25-30-6 to all amounts to which the vendor is entitled, including cancellation fees.

605-25-55-63 Entity D sells fabric for use in manufacturing clothing. Customers may purchase fabric from Entity D in individual 50-yard bolts or in bulk lots consisting of multiple bolts. One of Entity D's customers (Customer A) is a manufacturer of band uniforms that prefers to purchase the fabric in bulk because it needs the fabric to have a high level of consistency in color and quality. Customer A enters into an arrangement with Entity D to purchase a 12-bolt bulk lot of fabric that is to be delivered by Entity D in 3 4-bolt installments over a period of 3 months.

605-25-55-64 At Customer A's request, Entity D provides a customer satisfaction guarantee that it will refund double the price (up to a maximum of the total arrangement fee) for each bolt of fabric that is not delivered or not delivered from the same dye lot as the initial installment. That is, the double-money-back guarantee provides that, in addition to having no obligation for bolts of fabric not delivered or not delivered from the appropriate dye lot, the customer will receive a refund for (or will not be obligated to pay for) an equal number of bolts.

605-25-55-65 There are no general rights of return included in the arrangement. The price for an individual 50-yard bolt of fabric is \$160, and the price for a 12-bolt bulk lot is \$1,824.

605-25-55-66 In determining the units of accounting under the arrangement, Entity D considered the following.

605-25-55-67 Entity D sold the 12-bolt bulk lot of fabric to Customer A on November 1, 20X2. Entity D will deliver the first of three four-bolt installments of fabric on November 15 and will deliver the remaining installments on December

15, 20X2, and January 15, 20X3. Customer A is obligated to Entity D for the full price of the fabric on November 15, 20X2, subject to the money-back guarantee. Entity D has sufficient production capacity and inventory to deliver all of the fabric in accordance with the installment provisions of the arrangement and, therefore, believes that it will do so. In addition, Entity D has entered into similar arrangements with many other customers in the past and rarely has failed to deliver fabric from the appropriate dye lot under its bulk-sale arrangements.

605-25-55-68 Based on an evaluation of the circumstances, the first condition for separation is met for the delivered fabric because Entity D also sells bolts of fabric individually. The second condition for separation is also met because ~~objective and reliable evidence of fair value exists based on Entity D's vendor-specific evidence of fair value. Arrangement consideration would be allocated evenly among the 12 bolts of fabric because each has an identical fair value (based on Entity D's vendor-specific evidence of fair value). The third condition for separation is met because~~ there are no general rights of return in the arrangement. Therefore, the delivered fabric should be accounted for as a separate unit of accounting.

605-25-55-69 Without considering whether any portion of the amount allocable to the individual bolts of fabric are contingent upon delivery of the other bolts of fabric, Entity D would allocate the arrangement consideration evenly among the 12 bolts of fabric using the relative selling price method because each bolt has an identical selling price. Therefore, the portion of the arrangement fee otherwise allocable to each bolt of fabric is $152 ($1,824 ÷ 12). However, in allocating the arrangement consideration, no amount is allocable to the initial delivered fabric because the arrangement provides the customer with a double-money-back guarantee for each bolt of fabric not delivered from the same dye lot as the initial installment. However, upon delivery of the second four-bolt installment (assuming that installment is delivered from the same dye lot as the initial installment), the amount allocable to that installment would be the amount related to four bolts of ~~fabric.~~fabric, $608 ($152 × 4 bolts of fabric). That is, if the third installment was not delivered or was not delivered from the same dye lot as the initial installment, Entity D would be entitled only to the price charged for four bolts of fabric.

29. Amend paragraph 605-25-55-73, with a link to a transition paragraph 605-25-65-1, as follows:

605-25-55-70 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and the limitation in paragraph 605-25-30-5 to noncontingent amounts.

605-25-55-71 PainterCo is a contractor that provides painting services for commercial and private residences. PainterCo contracts with a customer to paint the customer's house for $3,000. The price is inclusive of all paint, which is obtained by PainterCo at a cost of $800. The customer is given the right to purchase paint separately if so desired (although the customer did not opt to do so in this Example). The paint would have cost the customer $900 if purchased from a hardware store. The painting service would have cost $2,150 if purchased without the paint.

605-25-55-72 All paint necessary to complete the project is delivered to the customer's house prior to the beginning of the work. The customer has a general right of return with respect to any unopened can of paint. Further, the customer may receive a full refund of the sales price for all of the paint (whether or not the cans were opened) if PainterCo does not paint the house. PainterCo has always completed the painting service in accordance with contract terms and, therefore, believes that performance of the painting service in this arrangement is probable. PainterCo does not sell paint without providing the painting service.

605-25-55-73 Based on an evaluation of the circumstances, the first condition for separation is met because the paint is sold separately by other vendors. The second condition for separation is also met ~~for the painting service because objective and reliable evidence of fair value exists as PainterCo sells the painting service separately. The third condition for separation is met~~ because, even though a general right of return exists, performance of the painting service is probable and within the control of PainterCo. Therefore, the paint and the painting service are considered separate units of accounting.

605-25-55-74 However, in allocating the arrangement consideration, no amount would be allocated to the paint because, in the event that PainterCo does not perform the painting service, the customer may return all of the paint for a full refund.

30. Add paragraphs 605-25-55-75 through 55-93, with a link to a transition paragraph 605-25-65-1, as follows:

> > Example 11: Agricultural Equipment

605-25-55-75 This Example illustrates the unit of accounting guidance in paragraph 605-25-25-5 and an approach to estimating the selling price of deliverables under paragraph 605-25-30-6C when neither vendor-specific objective evidence nor third-party evidence of selling price exists. The approach in this Example should not be considered the only appropriate approach to estimating the selling price of the deliverables.

605-25-55-76 Entity A, a public entity, engages in the manufacture and distribution of farm equipment and related service parts, including tractors, harvesters, integrated agricultural management systems technology, and precision agricultural irrigation equipment. Each product has standard performance specifications but can be customized to meet the specific needs of any buyer. Entity A extensively tests the equipment against the standard and customer specifications before shipment.

605-25-55-77 On December 29, 20X8, Entity A enters into an arrangement to deliver a tractor and customized irrigation equipment to Customer M for a fee of

$270,000. For purposes of this example, the irrigation equipment is accounted for in accordance with Section 605-10-S99. The customer is obligated to pay $100,000 upon delivery of the tractor and the remainder of the arrangement consideration upon delivery of the irrigation equipment. On December 31, 20X8, Entity A delivers the tractor, and on April 5, 20X9, Entity A delivers the irrigation equipment. Neither product requires installation.

605-25-55-78 The tractor in this arrangement is often sold separately by Entity A for a price of $100,000, which is considered vendor-specific objective evidence of selling price. The irrigation equipment is also sold separately; however, because of the customized nature of the product, Entity A has neither vendor-specific objective evidence nor third-party evidence of selling price.

605-25-55-79 Entity A is considering whether the tractor is a separate unit of accounting and, if so, how to allocate the arrangement consideration at December 31, 20X8.

605-25-55-80 Based on an evaluation of the circumstances, the first condition for separation is met for the tractor. The tractor has standalone value as it is sold separately by Entity A. The second condition for separation is also met as there are no general rights of return. Therefore, the tractor should be accounted for as a separate unit of accounting.

605-25-55-81 Entity A has vendor-specific objective evidence of selling price for the tractor but has neither vendor-specific objective evidence nor third-party evidence of selling price for the irrigation equipment. Therefore, Entity A must estimate the selling price for the irrigation equipment.

605-25-55-82 Entity A considered all of the following in estimating the standalone selling price for the irrigation equipment:

a. Entity A's cost to produce the customized irrigation equipment is $110,000.
b. The division of Entity A that produces the irrigation equipment and other similar products earns an average gross profit margin of approximately 30 percent. The range of profit margins within the irrigation product line varies from 10 to 45 percent. Entity A generally receives a higher profit margin on the more specialized or customized products.
c. When selling noncustomized irrigation equipment, Entity A averages, on a worldwide basis, a selling price of approximately $140,000, which includes a gross profit margin of 25 percent.
d. Customer M is located in Asia where high demand has resulted in Entity A being able to command 10 to 15 percent higher prices for its irrigation product line than it commands in other markets it serves. This pricing is also consistent with Entity A's ongoing marketing strategy in Asia.

e. Direct competitors to Entity A's irrigation product line, Entity D and Entity E, earn average gross profit margins in Asia of 30 percent and 32 percent, respectively, based on a review of their periodic filings.
f. The customized irrigation equipment includes enhanced functionality that Entity A does not believe its competitors can provide. Entity A believes that this enhanced functionality has additional value in the marketplace.
g. Entity A's price list provided to prospective customers lists the price for irrigation equipment before customization at $155,000.

605-25-55-83 After weighing the relevance of the available data points, Entity A estimates its standalone selling price for the irrigation equipment to be $185,000. The determination of that estimated selling price was based on the cost of the irrigation equipment of $110,000 plus an estimated gross profit margin of 40 percent. The 40 percent gross profit margin is management's best estimate based on the margin they would expect to earn on the irrigation equipment if sold separately in Asia. The estimated margin of 40 percent is higher than the 30 percent average margin of the division because the 30 percent average margin includes lower margin products. Entity A also notes that it could command higher margins in Asia than the average margin due to the high demand in that market and the recent history combined with its ongoing pricing strategy. Entity A also considered the margins reported by its competitors and believes its estimated 40 percent margin is reasonable in relation to the competitor margins considering the enhanced functionality it believes the irrigation equipment has over its competitors' products.

605-25-55-84 Entity A did not rely on the $170,000 price of the irrigation equipment that was stated in the arrangement because the stated prices were negotiated to provide for more cash consideration earlier in the arrangement rather than to reflect the standalone selling price of the products. In addition, the arrangement prices are net of any discount embedded in the bundled arrangement rather than standalone selling prices of the products. Considering the customized nature of the irrigation equipment, Entity A did not consider the estimated selling price of $185,000 to be inconsistent with the list price of $155,000 for uncustomized irrigation equipment.

605-25-55-85 Accordingly, at December 31, 20X8, using the relative selling price method, Entity A would allocate $94,736 ($270,000 × [$100,000 ÷ $285,000]) to the tractor and $175,264 ($270,000 × [$185,000 ÷ $285,000]) to the irrigation equipment. Additionally, none of the amount allocable to the tractor is limited by the amount of payment contingent upon delivery of the irrigation equipment.

> > Example 12—Biotech License and Research and Development Agreement

605-25-55-86 This Example illustrates the accounting for deliverables combined into one unit-of-accounting required by paragraph 605-25-25-6.

605-25-55-87 The entity, Biotech, enters into an agreement with a pharmaceutical entity, Pharma. The agreement includes the following, as detailed in paragraphs 605-25-55-88 through 55-93:

a. Biotech licensing certain rights to Pharma
b. Biotech providing research and development services to Pharma.

605-25-55-88 License. Biotech licenses certain rights on an exclusive basis to Pharma for a period of 10 years. The license gives Pharma the exclusive right to market, distribute, and manufacture Drug B as developed using Technology A. Biotech retains all ownership rights to Technology A and Drug B. There are no when-and-if-available clauses or other performance obligations associated with the license, except as described in the paragraphs 605-25-55-89 through 55-93.

605-25-55-89 Research and development. Biotech agrees to provide research and development services on a best-efforts basis to Pharma. Biotech agrees to devote four full-time equivalent employees to the research and development activities, and Pharma expects to devote several full-time equivalent employees to the research and development activities as well. The objective of the research and development services is to develop Drug B using Technology A. The ultimate objective is to receive U.S. Food and Drug Administration approval on Drug B.

605-25-55-90 Compensation under the arrangement is as follows:

a. Biotech receives $5 million up-front upon signing the agreement.
b. Biotech receives $250,000 per year for each full-time equivalent employee who performs research and development activities.

605-25-55-91 None of these payments, once received, is refundable, even if U.S. Food and Drug Administration approval is never received. In addition, Biotech must perform on a best-efforts basis.

605-25-55-92 Pharma must use Biotech to perform the research and development activities necessary to develop Drug B using Technology A because the know-how and expertise related to Technology A is proprietary to Biotech. In other words, Biotech is the only party capable of performing the level and type of research and development services required by Pharma under the agreement. Biotech has determined that the fees charged for the research and development services (that is, the $250,000 per year for each full-time equivalent employee who performs research and development activities) are competitive with the price other third-party vendors charge for similar research and development services (that is, they represent third-party evidence of selling price for those services).

605-25-55-93 Based on an evaluation of the circumstances, there are two deliverables in this arrangement that should be considered for separation:

a. A license deliverable
b. A research and development activities deliverable.

The license deliverable does not meet the first criterion for separation because it does not have standalone value to Pharma. Because Drug B has not yet been developed, the license is of no value to Pharma and could not be sold without the accompanying research and development activities using Technology A, which is proprietary to Biotech. Likewise, Pharma could not sell the license on a standalone basis to another party (that is, because without Biotech agreeing to provide the research and development activities for that other party, the other party would not purchase the license). Therefore, the license and research and development activities should be considered a single unit of accounting in the arrangement.

30. Add paragraph 605-25-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*

605-25-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements:*

a. The pending content that links to this paragraph shall be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the vendor elects to adopt the pending content on a retroactive basis in accordance with paragraph 605-25-65-1(e).
b. Earlier application is permitted.
    1. If a vendor elects earlier application and the period of adoption is not the first reporting period in the vendor's fiscal year, the pending content that links to this paragraph shall be applied through retrospective application from the beginning of the vendor's fiscal year.
    2. Vendors shall disclose the following information at a minimum for all previously reported interim periods in the fiscal year of adoption:
        i. Revenue
        ii. Income before income taxes
        iii. Net income
        iv. Earnings per share
        v. The effect of the change for the appropriate captions presented.
c. In the year of adoption, a vendor shall disclose information that enables users of the financial statements to understand the effect of the change in accounting principle if the pending content that links to this paragraph

is adopted on a prospective basis. To satisfy that objective, a vendor shall disclose at a minimum the following qualitative information by similar types of arrangements:

1. A description of any change in the units of accounting
2. A description of the change in how a vendor allocates the arrangement consideration to various units of accounting
3. A description of the changes in the pattern and timing of revenue recognition
4. Whether the adoption of the pending content that links to this paragraph is expected to have a material effect on financial statements in periods after the initial adoption.

d. If the effect of adopting the pending content that links to this paragraph is material, the qualitative information shall be supplemented with quantitative information in the period of adoption to satisfy the objective of enabling users to understand the effect of the change in accounting principle. Depending on a vendor's facts and circumstances, the following are examples of methods (but not the only potential methods) that may individually or in combination provide quantitative information to satisfy that objective:
   1. The amount of revenue that would have been recognized in the year of adoption if the related arrangements entered into or materially modified after the effective date were subject to the measurement requirements of Subtopic 605-25 (before the amendments resulting from Update 2009-13).
   2. The amount of revenue that would have been recognized in the year before the year of adoption if the arrangements accounted for under Subtopic 605-25 (before the amendments resulting from Update 2009-13) were subject to the measurement requirements of the pending content that links to this paragraph.
   3. For arrangements that precede the adoption of the pending content that links to this paragraph, the amount of revenue recognized in the reporting period and the amount of the deferred revenue as of the end of the period from applying the guidance in Subtopic 605-25 (before the amendments resulting from Update 2009-13). For arrangements that were entered into or materially modified after the effective date of the pending content that links to this paragraph, the amount of revenue recognized in the reporting period and the amount of deferred revenue as of the end of the period from applying the guidance in the pending content that links to this paragraph.

e. A vendor may elect, but is not required, to adopt the pending content that links to this paragraph through retrospective application applying the guidance in paragraphs 250-10-45-5 through 45-10. If a vendor elects retrospective application, the disclosures in paragraphs 250-10-50-1 through 50-3 shall be provided.

32. Amend paragraph 605-25-00-1 as follows:

605-25-00-1 ~~No updates have been~~The following table identifies the changes made to this ~~subtopic.~~Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
605-25-05-1	Amended	2009-13	10/07/2009
605-25-05-2	Amended	2009-13	10/07/2009
605-25-15-3A	Amended	2009-13	10/07/2009
605-25-15-4	Amended	2009-13	10/07/2009
605-25-25-2	Amended	2009-13	10/07/2009
605-25-25-5	Amended	2009-13	10/07/2009
605-25-25-6	Amended	2009-13	10/07/2009
605-25-30-2	Amended	2009-13	10/07/2009
605-25-30-3	Superseded	2009-13	10/07/2009
605-25-30-4	Amended	2009-13	10/07/2009
605-25-30-5	Amended	2009-13	10/07/2009
605-25-30-6A	Added	2009-13	10/07/2009
605-25-30-6B	Added	2009-13	10/07/2009
605-25-30-6C	Added	2009-13	10/07/2009
605-25-30-7	Amended	2009-13	10/07/2009
605-25-30-8	Superseded	2009-13	10/07/2009
605-25-30-9	Superseded	2009-13	10/07/2009
605-25-50-1	Amended	2009-13	10/07/2009
605-25-50-2	Added	2009-13	10/07/2009
605-25-55-1	Amended	2009-13	10/07/2009
605-25-55-2	Amended	2009-13	10/07/2009
605-25-55-3	Amended	2009-13	10/07/2009
605-25-55-7	Amended	2009-13	10/07/2009
605-25-55-8	Amended	2009-13	10/07/2009
605-25-55-9	Amended	2009-13	10/07/2009
605-25-55-11	Amended	2009-13	10/07/2009
605-25-55-12	Amended	2009-13	10/07/2009
605-25-55-15	Amended	2009-13	10/07/2009
605-25-55-17	Amended	2009-13	10/07/2009
605-25-55-19	Amended	2009-13	10/07/2009
605-25-55-23 through 55-30	Amended	2009-13	10/07/2009
605-25-55-32	Amended	2009-13	10/07/2009
605-25-55-34 through 55-47	Amended	2009-13	10/07/2009
605-25-55-48	Superseded	2009-13	10/07/2009

Paragraph Number	Action	Accounting Standards Update	Date
605-25-55-49	Superseded	2009-13	10/07/2009
605-25-55-50	Superseded	2009-13	10/07/2009
605-25-55-51 through 55-56	Amended	2009-13	10/07/2009
605-25-55-56A	Added	2009-13	10/07/2009
605-25-55-56B	Added	2009-13	10/07/2009
605-25-55-57 through 55-61	Amended	2009-13	10/07/2009
605-25-55-68	Amended	2009-13	10/07/2009
605-25-55-69	Amended	2009-13	10/07/2009
605-25-55-73	Amended	2009-13	10/07/2009
605-25-55-75 through 55-93	Added	2009-13	10/07/2009
605-25-65-1	Added	2009-13	10/07/2009

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Amendments to the XBRL Taxonomy

The following elements are proposed additions or modifications to the XBRL taxonomy as a result of the amendments in this Update. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk* and have been **bolded.** If an existing element was modified, it has been marked to reflect any changes.)

Standard Label[†]	Definition	Codification Reference
Revenue Recognition, Multiple Element Arrangements*	Describes a vendor's accounting policy for revenue recognition for multiple-deliverable arrangements, including multiple-element software arrangements, and the nature of such arrangements.~~, including performance, cancellation, termination or refund-type provisions. The accounting policy should state the accounting policy for each unit of accounting and how units of accounting are determined and valued.~~ In addition to the required disclosures, the entity shall also disclose other qualitative and quantitative information as necessary to comply with appropriate guidance.	605-25-50-1
Revenue Recognition, Multiple Element Arrangements, Other [Text Block]	Disclosures regarding the accounting policy for multiple-deliverable arrangements should be categorized by type of arrangement.	605-25-50-2
Schedule of Multiple Element Arrangements, Other, by Type of Arrangement [Table]	Schedule of relevant disclosures regarding revenue recognition in arrangements consisting of multiple deliverables, organized according to similar type of arrangement.	605-25-50-2

[†]The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label†	Definition	Codification Reference
Multiple Element Arrangements, Other, by Type [Axis]	Information about the types of multiple deliverable arrangements entered into by the entity.	605-25-50-2
Multiple Element Arrangements, Other, Type [Domain]	Group of multiple-deliverable arrangements entered into by the entity, categorized by similar type of arrangement.	605-25-50-2
Multiple Element Arrangements, Other, Disclosure Information [Line Items]	Provides certain required disclosure items relating to multiple-deliverable arrangements.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Nature	For each type of multiple-deliverable arrangement, describes the nature of such arrangements.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Deliverables	For each type of multiple-deliverable arrangement, describes the significant deliverables within such arrangements.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Timing	For each type of multiple-deliverable arrangement, describes the general timing of delivery or performance of service for deliverables within such arrangements.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Provisions	For each type of multiple-deliverable arrangement, describes the performance-, cancellation-, termination-, and refund-type provisions of such arrangements.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Selling Price	For each type of multiple-deliverable arrangement, discusses the significant factors, inputs, assumptions, and methods used to determine selling price (whether vendor specific objective evidence, third-party evidence, or estimated selling price) for the significant deliverables.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Units of Accounting	For each type of multiple-deliverable arrangement, discusses whether the significant deliverables in the arrangements qualify as separate units	605-25-50-2

Standard Label†	Definition	Codification Reference
	of accounting and the reasons why they do not qualify as separate units of accounting, if applicable.	
Multiple Element Arrangements Disclosure, Other, Revenue Timing	For each type of multiple-deliverable arrangement, describes the general timing of revenue recognition for significant units of accounting.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Effect of Changes	For each type of multiple-deliverable arrangement, describes the effect of changes in either the selling price or the method or assumptions used to determine selling price for a specific unit of accounting if either one of those changes has a significant effect on the allocation of arrangement consideration.	605-25-50-2
Multiple Element Arrangements Disclosure, Other, Additional	For each type of multiple-deliverable arrangement, any additional qualitative and quantitative information as necessary to comply with appropriate guidance.	605-25-50-1
New Accounting Pronouncement or Change in Accounting Principle, Revenue Recognized and Deferred Revenue	In case of adoption of a new accounting pronouncement on a prospective basis, disclose the amount of revenue recognized in the reporting period and the amount of deferred revenue as of the end of the period from applying (a) the guidance in Subtopic 605-25 (before the amendments in the new accounting pronouncement) and (b) the amendments in the new accounting pronouncement.	605-25-65-1