

Heads Up

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The ASU does not create any new methods of revenue recognition, but its amendment to the scope of existing guidance can significantly affect an entity's periodic revenue.

Reconfiguring the Scope of Software Revenue Recognition Guidance.

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Introduction

Under current U.S. GAAP, the guidance on revenue recognition for software is different from the guidance on revenue recognition for tangible products. Because the number of tangible products that incorporate computing components and software has increased, the way in which revenue is recognized for them has received more scrutiny. For example, questions have arisen about whether entities should account for sales of cell phones, PDAs, copiers, and other similar products that incorporate software as (1) sales of software or (2) sales of tangible products.

To address these concerns, the FASB has issued [ASU 2009-14](#)¹ (formerly Issue 09-3²), which reflects the consensus of the Emerging Issues Task Force (the Task Force or EITF) and amends ASC 985-605³ (formerly SOP 97-2⁴) to exclude from its scope certain tangible products that contain software that functions together with nonsoftware deliverables to deliver the tangible product's essential functionality. The ASU does not create any new methods of revenue recognition, but its amendment to the scope of existing guidance can significantly affect an entity's periodic revenue.

Editor's Note: Entities will apply the separation and allocation guidance in ASC 650-25⁵ as recently amended by [ASU 2009-13](#)⁶ (formerly Issue 08-1⁷) for multiple-element arrangements that are now outside the scope of the software revenue recognition guidance in ASC 985-605 under the provisions of ASU 2009-14. See Deloitte's [October 1, 2009, Heads Up](#), for further information on background, guidance, and application of ASU 2009-13.

Like ASU 2009-13, ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the entity elects to adopt it retrospectively in accordance with ASC 250⁸ (formerly Statement 154⁹). An entity may elect earlier application as long as it also applies the guidance in ASU 2009-13. An entity that elects early application in an interim period other than the first period of its fiscal year (e.g., its first quarter) should apply the guidance as of the beginning of its fiscal year. For all prior reporting periods of that fiscal year, the entity should disclose the effect of the changes on revenue, income before

¹ FASB Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements — a consensus of the FASB Emerging Issues Task Force*.

² EITF Issue No. 09-3, "Certain Revenue Arrangements That Include Software Elements."

³ FASB Accounting Standards Codification Subtopic 985-605, *Software: Revenue Recognition*.

⁴ AICPA Statement of Position 97-2, *Software Revenue Recognition*.

⁵ FASB Accounting Standards Codification Subtopic 605-25, *Revenue Recognition: Multiple Element Arrangements*.

⁶ FASB Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force*.

⁷ EITF Issue No. 08-1, "Revenue Arrangements With Multiple Deliverables."

⁸ FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

⁹ FASB Statement No. 154, *Accounting Changes and Error Corrections*.

taxes, net income, and earnings per share, as well as the effect of the changes for the appropriate captions presented.

The background of ASU 2009-14 and the key revisions it makes to previous guidance are summarized below. [Appendix A](#) contains important accounting implementation considerations, and [Appendix B](#) highlights key business considerations.

Background

A product containing software that is essential to the functionality of that product is within the scope of ASC 985-605 (the “software guidance”). This guidance applies to many software-enabled products that were not originally contemplated during the deliberations of SOP 97-2. Under the software guidance, an entity may only separate deliverables in a multiple-element arrangement if the entity has vendor-specific objective evidence of fair value (VSOE) of the undelivered elements. Many software-enabled products contain ongoing postcontract services, including future products such as upgrades. Because it is sometimes difficult for entities to establish VSOE for such products or services, the deliverables in these arrangements typically cannot be separated. As a result, entities must defer much of the revenue even though they have delivered the primary product. Many argue that this results in an uneconomic pattern of revenue recognition.

ASU 2009-13, which amends ASC 605-25 (formerly Issue 00-21¹⁰), requires entities to separate deliverables by using a best estimate of selling price if neither VSOE nor third-party evidence (TPE) exists. That is, a lack of VSOE for undelivered elements of an arrangement does not preclude separation. The Task Force observed that many products containing software within the scope of the software guidance were similar to other products within the scope of ASU 2009-13. Rather than addressing this issue by amending the measurement guidance for all software products, the Task Force decided to take a scope exception approach for software-enabled products. Key revisions as a result of this decision are discussed below.

Key Revisions

Scope

ASU 2009-14 amends the scope of the software guidance to exclude the following:

Software components of tangible products that are sold, licensed, or leased with tangible products when the software components and nonsoftware components of the tangible product function together to deliver the tangible product’s **essential functionality**.
[Emphasis added]

The amendment clarifies that both the nonsoftware components **and** the software components are excluded from the scope of the software guidance.

The ASU also clarifies that “[u]ndelivered elements that relate to software that is essential to the tangible product’s functionality” are similarly excluded from the scope of the software guidance.

Editor’s Note: ASU 2009-14 retains the guidance from ASC 985-605-15-3 (formerly Issue 03-5¹¹) only as it relates to services. This guidance clarifies that a service is within the scope of the software guidance if the software in the arrangement is essential to the functionality of that service. Issue 03-5 previously provided guidance on both tangible products and services that are essential, but ASU 2009-14 amends that guidance to exclude tangible products from the software guidance. As a result, hardware or other tangible products will no longer be included in the scope of the software guidance.

ASU 2009-14 does not define the term “essential functionality.” However, it lists the following (not all-inclusive) considerations to assist an entity in determining whether

¹⁰ EITF Issue No. 00-21, “Revenue Arrangements With Multiple Deliverables.”

¹¹ EITF Issue No. 03-5, “Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software.”

The amendment clarifies that both the nonsoftware components and the software components are excluded from the scope of the software guidance.

software elements and nonsoftware elements function together to deliver a product's essential functionality:

- a. If sales of the tangible product without the software elements are infrequent, a rebuttable presumption exists that software elements are essential to the functionality of the tangible product.
- b. A vendor may sell products that provide similar functionality such as different models of similar products. If the only significant difference between similar products is that one product includes software that the other product does not, the products shall be considered the same product for the purpose of evaluating (a).
- c. A vendor may sell software on a standalone basis. The vendor may also sell a tangible product containing that same software. The separate sale of the software shall not cause a presumption that the software is not essential to the functionality of the tangible product.
- d. Software elements do not need to be embedded within the tangible product to be considered essential to the tangible product's functionality.
- e. The nonsoftware elements of the tangible product must substantively contribute to the tangible product's essential functionality. For example, the tangible product should not simply provide a mechanism to deliver the software to the customer.

Allocation

An arrangement may contain deliverables that are within the scope of the software guidance (software deliverables) and deliverables that are outside its scope (nonsoftware deliverables). Keep in mind that software that is considered essential to the functionality of the tangible product is considered a nonsoftware deliverable under ASU 2009-14.

For example, a multiple-element arrangement may contain (1) a tangible product, (2) software that is essential to the functionality of the tangible product (software A), and (3) software that enhances, but is not essential to, the functionality of the tangible product (software B). In this example, software A would be considered part of the nonsoftware deliverable, and software B would be considered a separate software deliverable.

In an arrangement that contains both software deliverables and nonsoftware deliverables, an entity should separate deliverables and allocate arrangement consideration to those deliverables in the following manner:

- Separate and allocate total arrangement consideration to software deliverables and nonsoftware deliverables in accordance with the multiple-element revenue recognition guidance in ASC 605-25 (as amended by ASU 2009-13).
- Nonsoftware deliverables: the arrangement consideration allocated to the nonsoftware deliverables as a group is further subject to the separation and allocation guidance of ASC 605-25 (as amended by ASU 2009-13).
- Software deliverables: the arrangement consideration allocated to the software deliverables as a group is further subject to separation and allocation under the software guidance.
- If an undelivered element (such as postcontract customer support (PCS)) relates to both the software deliverables and the nonsoftware deliverables, it is bifurcated into a software deliverable (within the scope of the software guidance) and a nonsoftware deliverable (outside the scope of the software guidance).

Disclosure

The guidance in the ASU clarifies when arrangements are outside the scope of the software revenue recognition guidance, and entities are required to make the disclosures described in ASU 2009-13 for multiple-element arrangements that fall within the scope of ASC 605-25.

In addition, entities that prospectively apply the guidance in ASU 2009-14 must provide the transition disclosures required by ASU 2009-13. If an entity adopts the guidance retrospectively, it must disclose the information required by ASC 250-10-50-1 through 50-3. For detailed guidance on the disclosure requirements, see Deloitte's [October 1, 2009, Heads Up](#).

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may contain
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Appendix A — Accounting Implementation Considerations

Certain accounting implementation considerations for ASU 2009-14 and ASU 2009-13 are summarized below. For a more in-depth discussion of accounting and reporting considerations related to ASU 2009-13, see Deloitte's [October 1, 2009, Heads Up](#).

Essential Functionality

Entities must first determine whether the sale of a software-enabled product is outside the scope of the software guidance. This assessment requires an entity to determine whether the software components and nonsoftware components function together to deliver the tangible product's essential functionality. Note that entities must not assume that if they concluded that software was or was not essential to the functionality of a product under Issue 03-5 (codified in ASC 985-605), the conclusion is the same under ASU 2009-14.

ASU 2009-14 provides five considerations and a number of examples to assist entities analyzing whether software components and nonsoftware components function together to deliver a tangible product's essential functionality. The following table summarizes these considerations and matches them with the related examples. Entities should carefully review these considerations and examples in their analysis.

Considerations (ASC 985-605-15-4A)	Examples (ASC 985-605-55-211 through 55-236)
1. Tangible product sold infrequently without software — "If sales of the tangible product without the software elements are infrequent, a rebuttable presumption exists that software elements are essential to the functionality of the tangible product."	Case A — computer with operating system included Case B — computer with operating system excluded more than infrequently Case C — computer and multiple operating systems Case D — computer with additional software products included Case E — personal digital assistant
2. Products with similar functionality — "If the only significant difference between similar products is that one product includes software that the other product does not, the products shall be considered the same product for the purpose of evaluating [1 above]."	Case K — similar products
3. Separate sale of software — "The separate sale of the software shall not cause a presumption that the software is not essential to the functionality of the tangible product."	Case F — computer with operating system sold separately Case H — stand-alone sale of an operating system
4. Embedded software — "Software elements do not need to be embedded within the tangible product to be considered essential to the tangible product's functionality."	Case J — networking equipment
5. Nonsoftware elements and essential functionality — "The nonsoftware elements of the tangible product must substantively contribute to the tangible product's essential functionality."	Case L — change in business practice

Stand-Alone Value

In contrast to the guidance for multiple-element arrangements in ASC 605-25, the software guidance does not require a delivered item to have stand-alone value to the customer for deliverables to be separated into multiple units of accounting. For arrangements that are now outside the scope of the software guidance, entities will need to determine whether stand-alone value exists for all delivered items in order to separately account for the deliverables. This may be challenging for entities that accounted for their arrangements by using the software guidance and previously had not assessed whether delivered items in an arrangement had stand-alone value.

ASC 605-25-25-5(a) states the following about stand-alone value:

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).

In certain situations, determining whether an item has stand-alone value may be relatively straightforward. For example, if the item being considered is sold separately by the entity and there is a readily observable market in which customers regularly sell similar items separately, it would be reasonable to conclude that stand-alone value exists for the item. In other situations, the determination of whether the delivered item has stand-alone value becomes more complex and therefore requires the use of significant judgment. For example, when the item being considered is not sold separately by the entity but is bundled with other products or services from the entity that are necessary for the customer to derive substantive value from that item, the assessment of stand-alone value is much more challenging.

Example

Entity X enters into an arrangement to provide equipment with core software and installation services. The core software and equipment function together to deliver the essential functionality of the combined product. There is no VSOE for the installation service under ASC 605-25 because the equipment is new, installation is complex, and there is no reliable estimate of installation hours or rates for technician time.

If applicable, the entire arrangement would be considered a single unit of accounting under the software guidance. However, under ASU 2009-14, the entire arrangement would be outside the scope of the software guidance. Entity X would need to determine whether the delivered equipment and core software have stand-alone value apart from the undelivered installation services and therefore whether the arrangement consists of a single unit of accounting or multiple units of accounting. If X concludes that the equipment and core software have stand-alone value, the equipment and core software would be considered units of accounting that are separate from the undelivered installation services. Entity X would need to estimate the selling price for the undelivered installation service and allocate the arrangement consideration to each deliverable in the arrangement.

Residual Method

Under the software guidance, entities use the residual method to allocate consideration to the deliverables in an arrangement when they are able to determine VSOE for the undelivered items, but are unable to determine VSOE for the delivered items. For arrangements that are now outside the scope of the software guidance, the multiple-element arrangement revenue recognition guidance in ASC 605-25, as amended by ASU 2009-13, eliminates the residual method and requires entities to apply the relative-selling-price method. This will require entities to determine selling prices for all items in those arrangements, including the delivered items.

Estimating Selling Price

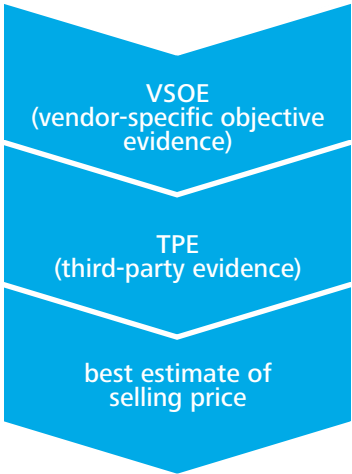
The introduction and required use of a selling price hierarchy, as well as the elimination of the residual method for allocating consideration for arrangements within the scope of ASU 2009-14, will create a number of implementation issues. Entities may be required for the first time to develop estimates of selling prices for deliverables that qualify for separation in an arrangement. For example, because of the elimination of the residual method, entities will be required to determine the estimated selling price for their **delivered** items by using the selling price hierarchy discussed below. In addition, entities that could not establish VSOE for undelivered items such as specified upgrades or PCS must now develop TPE or estimate selling price for these items.

When an arrangement meets the criteria for separation, the requirement to assign an estimated selling price to each deliverable will force entities to perform a robust analysis when determining the selling prices. As part of this analysis, an entity will be required to consider specific facts about its own revenue-generating activities as well as identify inputs from market information for similar arrangements to determine the level of evidence that the entity has within the selling price hierarchy. The new guidance does offer entities some leniency with respect to the effort they need to expend to obtain information about the selling price of a deliverable and states that “[i]n 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.” Entities will still need to demonstrate that they complied with ASU 2009-13’s required use of the selling price hierarchy. As a result, entities may need to assess their internal controls and financial reporting processes to evaluate the manner in which they will adhere to this hierarchy.

Compliance With the Selling Price Hierarchy

The software guidance requires entities to establish VSOE for undelivered items in an arrangement. TPE, which is permitted for multiple-element arrangements accounted for under the guidance of ASC 605-25, is not permitted under the software guidance.

For arrangements that are now outside the scope of the software guidance, entities will need to document their compliance with the selling price hierarchy established by ASU



2009-13. Entities with these arrangements will now be able to use TPE or estimated selling price to establish a selling price for deliverables that previously needed VSOE. Under this guidance, entities establish selling prices by first using VSOE. If VSOE does not exist, then entities must determine whether there is TPE of selling price. If neither VSOE nor TPE of selling price exist, the entity will need to determine the best estimate of the selling price for the deliverable in order to allocate consideration to the deliverables in the arrangement.

However, an entity cannot simply make its best estimate of the selling price for a deliverable and use that estimate to allocate arrangement consideration to a deliverable without first determining whether either VSOE or TPE of selling price exists for that deliverable. When an entity has to allocate consideration to a deliverable on the basis of its best estimate of the selling price, it will need to be able to demonstrate the process used to comply with the selling price hierarchy. As entities work through the selling price hierarchy, they will most likely need to document their pricing strategies for each deliverable and then, if applicable, analyze the actual pricing practices for those deliverables.

Difficulties in Determining “Best Estimate of Selling Price”

In many cases, it may be a welcome relief for entities to be able to estimate selling prices in the absence of VSOE when separating deliverables in an arrangement. However, an entity may also find that determining the best estimate of selling price for deliverables is complex and difficult. For example, an entity may find it difficult to develop its best estimate of selling price for a deliverable when it:

- Introduces a new product or service.
- Introduces an existing product or service to a new market or customer type.
- Cannot reasonably estimate selling price on a cost-plus-margin basis because many of the costs incurred are considered research and development (i.e., nontangible assets).
- Experiences significant dispersion of selling price for any given product or service.
- Sells a low volume of the products or services.
- Enters into unique arrangements in which the products, services, or other obligations offered do not exist in the vendor’s other arrangements.
- Is motivated to enter into sales for reasons that go beyond typical sales practices and objectives (e.g., distressed sales or sales made to enter a new market or entice future sales of a product or service).
- Involves deliverables that are not the subject of specific pricing policies or strategies (e.g., “less significant” or “ancillary” deliverables).
- Experiences anomalies in the supply or demand of products/services in the marketplace.

Although situations will certainly arise in which there are inherent difficulties in developing the best estimate of selling price, we also believe that entities are in a unique position to be able to estimate the selling price of their own products and services provided to customers. However, in certain situations, entities may need to involve valuation specialists to help identify and evaluate all the appropriate factors when determining the best estimate of selling price for certain deliverables.

Expanded Disclosures

Entities with arrangements that, because of the guidance in ASU 2009-14, are outside the scope of the software guidance will need to provide the disclosures required under ASU 2009-13. These disclosure requirements are significantly more expansive than those required by the software guidance. Not only will entities have to develop transition disclosures in the year of adoption, but they will also be required to disclose additional information on an on-going basis.

ASU 2009-13 states that disclosures are required as follows for similar types of arrangements:

The objective of the disclosure guidance . . . is to provide both qualitative and quantitative information about a vendor’s revenue arrangements and about the significant judgments made about the application of [ASU 2009-13] and changes in [either] 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.

ASU 2009-13 goes on to state:

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.

Financial statement preparers will need to assess their ability to isolate this information from other information in their accounting systems to ensure the feasibility of collecting the necessary data. Of particular challenge will be disclosing the effect of changes required by subparagraph (h). As discussed above, determining when and how often to reassess selling price for individual deliverables will require significant judgment, as will disclosing (in accordance with subparagraph (h)) the “significant effect on the allocation of arrangement consideration” as a result of those changes. For example, the term “significant effect” is not defined in the context of such changes, so entities will need to develop a policy for determining when changes have a significant effect on similar types of arrangements. In addition, all disclosures required by subparagraphs (a)–(h) are aggregated by similar type of arrangement. Determining when arrangements are similar in type and just how those disclosures should be aggregated will also require significant judgment and similarly may place additional demands on an entity’s accounting systems as the entity attempts to collect the required information.

Transition Disclosures

ASU 2009-13 requires an entity adopting its provisions prospectively to provide additional qualitative disclosures in the year of adoption. Qualitative disclosures by similar types of arrangements should enable financial statement users to understand the effect of adopting ASU 2009-13 prospectively. If the changes resulting from adoption of ASU 2009-13 are material, an entity must also provide supplemental quantitative disclosures, although ASU 2009-13 does not prescribe any specific disclosures. ASU 2009-13 does, however, give the following examples of quantitative disclosures:

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 [ASU] 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 [ASU] 2009-13) were subject to the measurement requirements of [ASU] 2009-13.
3. For arrangements that precede the adoption of [ASU] 2009-13, 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 [ASU] 2009-13). For arrangements that were entered into or materially modified after the effective date of [ASU] 2009-13, the amount of revenue recognized in the reporting period and the amount of deferred revenue as of the end of the period from applying [ASU] 2009-13.

If an entity provides one of the disclosures in the above examples, it may need to either maintain two sets of accounting records in the year of adoption (one in accordance with ASU 2009-13 and one maintaining the revenue that would have been recognized in accordance with the software guidance), or determine how ASU 2009-13 would have affected arrangements entered into or materially modified in the prior year. Even entities that had VSOE for undelivered items under the software guidance, and that therefore account for the deliverables in an arrangement separately, may have to disclose the impact of applying the relative selling price method rather than the residual method of revenue allocation. Using the two accounting models to capture that information will once again place a greater burden on management to meet not only the new accounting requirements but also the new disclosure requirements.

Entities that elect retrospective application in accordance with ASC 250-10-45-5 through 45-10 will need to provide the disclosures required by ASC 250-10-50-1 through 50-3.

Appendix B — Other Implementation Considerations

The new guidance on revenue recognition will change how entities need to evaluate both current and future product agreements. This appendix presents an overview of several implementation considerations and offers a suggested approach to help entities begin transition planning.

Sales Process and Pricing Strategies

For arrangements within the scope of ASU 2009-14, the new revenue recognition rules will significantly affect certain entities' product pricing and bundling strategies. Many entities currently require their sales force to comply with strict pricing and product bundling guidelines to limit revenue arrangements for which VSOE cannot be established for all of the deliverables in an arrangement. The new guidance will give entities an opportunity to reevaluate their sales processes and pricing strategies for products that contain software that is essential to their functionality because it is no longer necessary to maintain the high concentrations of selling prices that were required to establish VSOE. However, entities should also consider the effect that this may have on arrangements containing software that, when sold alone, is still within the software guidance.

Policies, Procedures, and Controls

Policies, procedures, and controls previously put in place to ensure that VSOE was maintained may need to be reevaluated and revised under the new guidance, and strict controls over pricing and bundling may need to be replaced. In addition, new accounting policies, procedures, and controls will need to be developed to address how an entity will establish selling price and account for the change in allocation approach from the residual method to the relative selling price method.

System Implications

Additional disclosure requirements under ASU 2009-13, as well as changes to product pricing strategies and deliverable allocation methods, can affect an entity's systems. In addition, ASU 2009-14 may now require entities to consider whether they will need to track products under two revenue models. For example, operating systems sold on a stand-alone basis and bundled with hardware that was previously accounted for solely under the software guidance may now require consideration under both the software guidance and ASU 2009-13 when sold together. Accordingly, entities will need to identify and address significant areas of impact and coordinate with information technology personnel regarding potential system upgrades to comply with the new standards.

Dual Reporting

Dual reporting can also significantly affect an organization's systems and resources. The transition guidance in ASU 2009-13 requires entities to provide quantitative information (if material) to supplement the required qualitative information and provides several examples. In one, an entity can report what revenue would have been under the previous guidance in addition to what it is under the new guidance in the year of adoption. An entity that chooses to do this would need to either implement manual processes or make system changes. This could place additional burdens on both accounting and reporting staff as well as revenue system personnel in gathering and maintaining the necessary disclosure data. Entities would need to develop a plan to ensure that an efficient means of gathering this information is identified and implemented when the new standards are adopted.

Sales Incentives

The sales compensation structure in many entities is based on an expected pattern of revenue recognition under the old guidance. If this pattern is changed under the new guidance (e.g. revenue recognition is accelerated), compensation plans will also need to be evaluated and adjusted accordingly.

How Should Entities Begin Planning for Implementation?

The following steps illustrate how an entity can better understand the impact of these standards and plan for implementation.

Which adoption approach should be chosen?

Entities will have the following options when adopting the new standards:

Prospective adoption — adopt prospectively for new or materially modified arrangements in the fiscal year beginning on or after June 15, 2010. Transition disclosures are required.

Early adoption — adopt prospectively. If adopted in a period other than the first reporting period of the fiscal year, apply retrospectively from the beginning of the fiscal year. Transition disclosures are required in addition to disclosure of the effect of the change in previous quarters on revenue, income before taxes, net income, earnings per share, and other appropriate captions.

Retrospective adoption — adopt retrospectively and restate all periods under the guidance in ASC 250 (previously Statement 154).

Choosing to adopt at the beginning of a fiscal year can provide for a longer transition timeline, while opting for early adoption may allow entities to take advantage of opportunities to streamline revenue recognition policies, implement new pricing strategies, or provide customers new product bundling options before the end of their current fiscal year. Organizations will need to evaluate the costs and benefits of each option to determine the best approach for their entity.

Assess current revenue streams and recognition policies — Transition to new revenue recognition guidance can give entities an opportunity to take a fresh look at current practices. Entities that have grown through acquisitions or operate as individual business units may analyze and account for revenue in various ways. An initial assessment of current revenue streams will not only give entities insight into significant impact areas, but can also provide an opportunity to streamline and consolidate current revenue recognition policies and processes. We suggest that entities first assess the accounting impact of the new revenue recognition guidance resulting from current business practices and then consider the accounting impact resulting from new or changed business practices (e.g., new pricing or product and service bundling options).

Evaluate how the new standards will affect the organization — Once the initial assessment process is completed, we suggest closely examining areas of significant impact and establishing individual work streams to address areas that will be affected in addition to accounting and financial reporting. These can include human resources, sales, and information technology.

Develop an implementation plan — Successfully implementing the new revenue recognition guidance will involve many aspects of an organization. Effectively planning and managing this effort can bring about improvements in an organization's accounting policies, financial reporting process, and controls in addition to sales and pricing strategies related to revenue recognition. The implementation plan should establish reasonable and achievable timelines for implementation.

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