

## Heads Up

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Issue 08-1 will enable entities to separately account for individual deliverables for many more revenue arrangements.

## Revenue Recognition: No Longer an Issue of Separation Anxiety.

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### Overview

The Emerging Issues Task Force (the “Task Force” or EITF) has finalized Issue 08-1,<sup>1</sup> which will significantly change the accounting for revenue recognition for arrangements with multiple deliverables. Issue 08-1 will enable entities to separately account for individual deliverables for many more revenue arrangements. By removing the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables, the EITF expects the recognition of revenue to more closely align with the economics of certain revenue arrangements. The ability to separately account for more deliverables does come with significantly increased disclosure responsibilities. These changes and others are summarized in this *Heads Up*. In addition, this *Heads Up* highlights some of the challenges that are expected with adopting this guidance.

Specifically, this *Heads Up* provides:

- [Background](#) on why the EITF decided to reconsider this guidance.
- A summary of [key provisions and changes](#), including:
  - [Selling price hierarchy](#).
  - [Relative selling price method](#).
  - [Disclosure requirements](#).
  - [Transition and effective date](#).

The [appendix](#) of this *Heads Up* analyzes some important implementation considerations that entities should be thinking about while studying the impact of adopting Issue 08-1. These considerations include, but are not limited to:

- [Deliverables](#)
  - [Identification of deliverables in an arrangement](#).
  - [Definition of a deliverable](#).
- [Contingencies in revenue arrangements](#).
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- [Stand-alone value](#).
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  - [Complying with the selling price hierarchy](#).
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<sup>1</sup> EITF Issue No. 08-1, “Revenue Arrangements With Multiple Deliverables.”

- o Impact on prior and future arrangements when vendor-specific objective evidence (VSOE) or third-party evidence (TPE) of selling price is established after the inception of a revenue arrangement.
- o Developing the “best estimate of selling price” when VSOE or TPE of selling price cannot be established.
- o Assessing market- and entity-specific factors when establishing the best estimate of selling price.
- o Difficulties in determining best estimate of selling price.
- o Degree of reliability for best estimate of selling price.
- o Using a single-point estimate versus a range for determining best estimate of selling price.
- Transition.
  - o Materially modified revenue arrangements.
- Disclosures.
  - o Transition disclosures.

In addition, we encourage entities to consult with their auditors and advisers early when assessing the impact of adopting this new guidance.

## Background

As the business landscape has evolved and become more complex, customers have increasingly demanded integrated solutions to address their needs. In response, entities have diversified, offering more products and services to their customers. Such diversification has resulted in revenue arrangements containing multiple deliverables and, in many cases, multiple payment streams. For example, a service provider may receive an up-front payment upon signing a service contract with a customer and then receive additional payments as multiple services are provided to that customer. Other examples can be much more complex and involve both product and service deliverables. To determine the unit(s) of accounting in such multiple-deliverable arrangements,<sup>2</sup> entities have historically looked to Issue 00-21.<sup>3</sup> Ever since Issue 00-21 became effective, numerous questions have been raised about the application of the accounting guidance therein as well as about the resulting financial reporting.

Issue 00-21 provided guidance on separating deliverables into different units of accounting and on allocating an arrangement’s consideration to those units. Specifically, this guidance required entities to identify deliverables in an arrangement; assess whether the delivered items in an arrangement had stand-alone value; determine whether there was objective and reliable evidence of fair value for the undelivered items; and, if a general right of return related to the delivered item exists, assess whether delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. The required analysis under Issue 00-21 not only was often difficult, but also at times resulted in an accounting conclusion that did not faithfully reflect the economics of a given transaction.

In response to these challenges, the EITF added a project to its agenda to address practice concerns related to the accounting for revenue arrangements with multiple deliverables. This project has resulted in Issue 08-1, which supersedes the guidance from Issue 00-21 that was codified in ASC 605-25.<sup>4</sup> At inception, Issue 08-1 had a fairly narrow focus — whether, under certain circumstances, it may be acceptable to use a multiple-attribution model to recognize revenue for a single unit of accounting. Under a multiple-

<sup>2</sup> Certain transactions that were within the scope of what was previously considered higher-level accounting literature (e.g., AICPA Statements of Position 81-1 and 97-2 and FASB Statements No. 13, 45, and 66) were accounted for under the appropriate higher-level literature and specifically excluded from the scope of Issue 00-21. The Codification has not changed the scope of this guidance. ASC 605-25 still specifically excludes from its scope transactions that are covered by other Subtopics in the Codification. Issue 08-1 does not amend this guidance.

<sup>3</sup> EITF Issue No. 00-21, “Revenue Arrangements With Multiple Deliverables.”

<sup>4</sup> FASB Accounting Standards Codification Subtopic 605-25, *Revenue Recognition: Multiple-Element Arrangements*.

We encourage entities to consult with their auditors and advisers early when assessing the impact of adopting this new guidance.

Guidance from Issue 08-1 will replace the affected Issue 00-21 guidance, which was codified in ASC 605-25.

attribution model, multiple methods are used to recognize arrangement consideration for a single unit of accounting; for example, an up-front payment may be recognized on a straight-line basis over the term of the arrangement, while a price paid per unit may be recognized as units are delivered.

**Editor's Note:** Issue 08-1 will ultimately be issued as an Accounting Standards Update (ASU) that will amend the FASB Accounting Standards Codification (ASC). Guidance from Issue 08-1 will replace the affected Issue 00-21 guidance, which was codified in ASC 605-25. ASC 605-25 will be amended by an ASU after the publication of this *Heads Up*.

This *Heads Up* references and quotes a number of paragraphs that Issue 08-1 will amend in the ASC on the basis of the final minutes of the September 2009 EITF meeting. While the quoted paragraphs are not expected to change, they may differ slightly in the final ASU.

As a reminder, on July 1, 2009, the FASB launched the ASC. The ASC is the single source of nongovernmental authoritative U.S. GAAP for interim and annual periods ending after September 15, 2009, at which time it supersedes all standards in Levels A–D of the U.S. GAAP hierarchy. ASUs will replace accounting changes that historically were issued as FASB Statements, FASB Staff Positions (FSPs), EITF Issues, or other types of GAAP standards issued by the FASB.

While discussing multiple-attribution models, the Task Force acknowledged that there are many different views and interpretations regarding identifying deliverables, determining an “attribution model,” and describing the substance of different arrangements. In some circumstances, views differed on whether particular revenue recognition models were, in fact, multiple-attribution models. Accordingly, the Task Force requested that the FASB staff perform additional research on the transactions and underlying causes that were giving rise to the practice concerns with applying Issue 00-21.

As has often been its practice when addressing other challenging EITF Issues, the Task Force formed the Issue 08-1 Working Group (the “Working Group”) to explore the topic in more detail. During the discussions of the Working Group and the Task Force, it was determined that when an entity applies Issue 00-21, one of the more common, and perhaps most significant, causes for financial reporting that did not faithfully reflect the economics of a given transaction was the inability to separate deliverables because of a lack of objective and reliable evidence of fair value for one or more of the undelivered items. When separate deliverables are combined into a single unit of accounting, the result is often either no immediate revenue recognition or only partial immediate recognition of revenue related to a product or service already delivered to the customer. In some instances, the delivered item may have represented the substantial portion of the value in the arrangement and yet revenue could only be recognized when the relatively insignificant product or service was subsequently delivered.

Hence, Issue 08-1 evolved from addressing the acceptability and applicability of a multiple-attribution revenue recognition model for a single unit of accounting into addressing the specific question of how to “fix” the separation criteria in Issue 00-21.

**Editor's Note:** During meetings of both the Working Group and the Task Force, it was generally agreed that a multiple-attribution model of revenue recognition would be acceptable, and that the SEC had accepted such a model, in certain circumstances. However, views differed on what would constitute a multiple-attribution model as well as under what circumstances the use of such a model would be acceptable. Because Issue 08-1 does not address this topic, an entity will need to use judgment when concluding that a multiple-attribution model is appropriate for a single unit of accounting. In addition, the Task Force added to its agenda Issue 08-9<sup>5</sup> to address certain arrangements involving contingent consideration and the application of a multiple-attribution model.

<sup>5</sup> EITF Issue No. 08-9, “Milestone Method of Revenue Recognition.”

## Key Provisions and Changes

The EITF decided that Issue 08-1 should retain much of the guidance originally included in Issue 00-21 and codified in ASC 605-25. Issue 08-1 applies to all deliverables in contractual arrangements in all industries in which a vendor will perform multiple revenue-generating activities, except when some or all deliverables in a multiple-deliverable arrangement are within the scope of other, more specific sections of the Codification (e.g., ASCs 840,<sup>6</sup> 952,<sup>7</sup> 360-20<sup>8</sup> (pre-Codification guidance from Statements 13,<sup>9</sup> 45,<sup>10</sup> and 66<sup>11</sup>) and other sections of ASC 605 on revenue recognition (e.g., pre-Codification guidance from SOPs 81-1<sup>12</sup> and 97-2<sup>13</sup>). Specifically, Issue 08-1 addresses the unit of accounting for arrangements involving multiple deliverables. It also addresses how arrangement consideration should be allocated to the separate units of accounting, when applicable. However, guidance on determining when the criteria for revenue recognition are met and on how an entity should recognize revenue for a given unit of accounting are located in other sections of the Codification. The timing and pattern of revenue recognition for a given unit of accounting depend on the nature of the deliverable(s) composing that unit and on whether the applicable criteria for revenue recognition have been met. In determining the appropriate revenue recognition model to use, an entity should consider other accounting literature (e.g., SAB Topic 13<sup>14</sup>).

Issue 08-1 requires a vendor to evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. This evaluation must be performed at the inception of an arrangement and as each item in the arrangement is delivered. Issue 08-1 retains from Issue 00-21 the criteria for when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting and states:

In an arrangement with multiple deliverables, the delivered item or items shall be considered a separate unit of accounting if both 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. 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.

A delivered item that does not meet both of the criteria above would not qualify as a separate unit of accounting and would be combined with other deliverables in an arrangement. The allocation of consideration and recognition of revenue would then be determined for those combined deliverables as a single unit of accounting.

Issue 08-1 removes the previous separation criterion under Issue 00-21 that objective and reliable evidence of the fair value of any undelivered items **must** exist for the delivered items to be considered a separate unit or separate units of accounting. Under Issue 08-1, an entity must determine the selling price of deliverables otherwise qualifying for separation ("qualifying deliverables") by using VSOE or TPE **or** by making its best estimate of the selling price. That is, under Issue 00-21, an entity could only use certain types of evidence when determining the fair values of deliverables. Issue 08-1 does not contain any such restriction.

Issue 08-1 removes the previous separation criterion under Issue 00-21 that objective and reliable evidence of the fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting.

<sup>6</sup> FASB Accounting Standards Codification Topic 840, *Leases*.

<sup>7</sup> FASB Accounting Standards Codification Topic 952, *Franchisors*.

<sup>8</sup> FASB Accounting Standards Codification Subtopic 360-20, *Property, Plant, and Equipment: Real Estate Sales*.

<sup>9</sup> FASB Statement No. 13, *Accounting for Leases*.

<sup>10</sup> FASB Statement No. 45, *Accounting for Franchise Fee Revenue*.

<sup>11</sup> FASB Statement No. 66, *Accounting for Sales of Real Estate*.

<sup>12</sup> AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.

<sup>13</sup> AICPA Statement of Position 97-2, *Software Revenue Recognition*.

<sup>14</sup> SEC Staff Accounting Bulletin Topic 13, "Revenue Recognition."

<sup>15</sup> FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*.

**Editor’s Note:** Issue 08-1 will replace all references to “fair value” in ASC 605-25 (Issue 00-21) with references to “selling price” to clarify that the selling-price measure in Issue 08-1 is not a market-participant measure as required by ASC 820<sup>15</sup> (previously known as Statement 157<sup>16</sup>). The selling price of an item is an entity-specific measure that represents the amount an entity would sell that item for in a stand-alone transaction with a customer. An entity is permitted, but not required, to incorporate market-based inputs, such as TPE, into the determination of selling price (note, however, that an entity would be required to do so in determining fair value under ASC 820).

While the changes outlined above may seem relatively minor in the context of the model for determining separate units of accounting for multiple-deliverable arrangements, the implications of those changes may be quite significant, as illustrated in the following example:

#### Example A

Entity A, a manufacturer of highly specialized electronic equipment, enters into a \$3 million arrangement to deliver this equipment and provide implementation services after the delivery. The effort A must expend to perform the implementation services can vary significantly from customer to customer. Thus, A cannot reliably estimate the amount of time it needs to perform the implementation services for any particular customer. Entity A therefore determines that it does not have objective and reliable evidence of fair value for the implementation services. The electronic equipment has stand-alone value to the customer, and the agreement has no general right of return.

##### Evaluation Under Issue 00-21

Because A does not have objective and reliable evidence of fair value for the implementation services, the electronic equipment and implementation services are one unit of accounting. Entity A determines that an appropriate method of revenue recognition for its single unit of accounting is to recognize the \$3 million fee once implementation services are provided.

##### Evaluation Under Issue 08-1

The separation criteria for the electronic equipment are met because the equipment has stand-alone value to the customer and no general right of return exists. Therefore, both the electronic equipment and the implementation services deliverables are accounted for as separate units of accounting and A must determine the selling price for each deliverable and allocate a portion of the fee to each deliverable.

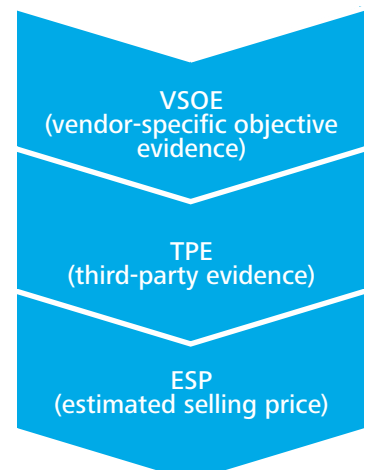
Entity A determines that an appropriate method of revenue recognition is to recognize the portion of the fee allocated to the electronic equipment upon its delivery and the remaining portion of the fee as implementation services are provided.

Under Issue 08-1,  
the manner in which  
“selling price” is  
established is based  
on a hierarchy of  
evidence that entities  
must consider.

#### Selling Price Hierarchy

Issue 08-1 discusses how an entity should allocate arrangement consideration to separate units of accounting. In doing so, entities are required, at the inception of an arrangement, to establish the “selling price” for all deliverables that qualify for separation. The manner in which “selling price” is established is based on a hierarchy of evidence that entities must consider. Total arrangement consideration is then allocated on the basis of the deliverables’ relative selling price.

In considering the hierarchy of evidence under Issue 08-1, an entity first determines the selling prices by using VSOE of selling price, if it exists; otherwise, TPE of selling price must be used. If neither VSOE nor



<sup>16</sup> FASB Statement No. 157, *Fair Value Measurements*.

Entities that appropriately established VSOE or TPE of fair value for deliverables under Issue 00-21 will be able to establish VSOE or TPE of selling price for those same deliverables under Issue 08-1 (provided that the relevant facts and circumstances have not changed).

TPE of selling price exists for a deliverable, an entity must use its **best estimate** of the selling price for that deliverable to allocate consideration among the deliverables in an arrangement. As stated in Issue 08-1, in deciding whether the entity can establish VSOE or TPE of selling price, the “vendor shall not ignore information that is reasonably available without undue cost and effort.”

Issue 08-1 further defines each of the three levels within the hierarchy. ASC 605-25-30-6A defines VSOE as follows:

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 [or] (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).

ASC 605-25-30-6B defines TPE as follows:

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.

ASC 605-25-30-6C defines estimated selling price as follows:

The vendor’s best estimate of selling price shall be consistent with the objective of determining [VSOE] 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.

**Editor’s Note:** Issue 00-21 allowed for separation of deliverables if there was VSOE or TPE of fair value for the undelivered item(s). Accordingly, the threshold for establishing VSOE and TPE of selling price under Issue 08-1 is unchanged from the threshold for establishing VSOE or TPE of fair value under Issue 00-21. Consequently, entities that appropriately established VSOE or TPE of fair value for deliverables under Issue 00-21 will be able to establish VSOE or TPE of selling price for those same deliverables under Issue 08-1 (provided that the relevant facts and circumstances have not changed).

Because of the use of entity-specific assumptions coupled with the various judgments necessary to determine the selling price of a deliverable in accordance with the required selling price hierarchy, entities applying Issue 08-1 may determine selling prices in very different ways. As a result, the amount of revenue recognized in a particular period, as well as the amount of revenue recognized for similar deliverables, may be different. The following example illustrates how seemingly similar arrangements result in different accounting conclusions on the basis of the entity’s business practices and judgments.

#### Example B

Entities A, B, and C manufacture, sell, and install high-pressure water jet cutting systems. In limited situations, customers of A, B, and C have sold the water jet cutting systems to others who have installed the systems themselves.

Entity A’s systems can be purchased on a stand-alone basis for \$400,000 or bundled with installation for \$450,000. In addition, A provides installation services for most other competitors’ systems for \$100,000.

Entity B’s systems and installation services are similar to A’s, except that B does not sell either its systems or installation services separately. Entity B sells its systems and installation services for a combined price of \$475,000.

Entity C typically bundles its systems with installation and does not separately sell installation services. Entity C’s systems contain advanced technology that is still under patent. The advanced technology requires a proprietary installation service offered by C. Some customers with the appropriate level of expertise perform the installation services, although this is infrequent. Entity C sells its bundled systems and installation for a combined price of \$450,000. Entity C’s best estimate of the selling price of its systems and installation on a stand-alone basis is \$450,000 and \$150,000, respectively.



Upon adopting Issue 08-1, entities will be required to estimate the selling price for all deliverables that qualify for separation in an arrangement, regardless of whether those deliverables have been delivered or remain undelivered.

#### Example B (continued)

Because A has transactions in which it separately sells its systems and installation, A determines that it has VSOE of selling price for both elements — \$400,000 for the system and \$100,000 for the installation. Therefore, when it sells the two combined for \$450,000, A should allocate \$360,000  $[(\$400,000 \div \$500,000) \times \$450,000]$  to the system and \$90,000  $[(\$100,000 \div \$500,000) \times \$450,000]$  to the installation.

Because B only sells the system and installation services as a bundle, it does not have VSOE of selling price for either deliverable. However, B determines that its systems and installation are largely interchangeable with A's systems and installation. Accordingly, B determines that it has TPE of selling price for both deliverables, \$400,000 for the system and \$100,000 for the installation, on the basis of A's selling prices when A sells the deliverables separately. Therefore, B should allocate \$380,000  $[(\$400,000 \div \$500,000) \times \$475,000]$  to the system and \$95,000  $[(\$100,000 \div \$500,000) \times \$475,000]$  to the installation.

Because C typically sells the system and installation services as a bundle, it too does not have VSOE of selling price for either deliverable. In the limited instances in which the system was sold separately, there was significant variation in pricing and customer type. In addition, C believes that because of its patented advanced technology, its systems and installation services are not sufficiently similar to A's or B's systems and installation services. Accordingly, C determines that it must use its best estimate of selling price, \$450,000 for the system and \$150,000 for the installation, to allocate the arrangement consideration. Therefore, C should allocate \$337,500  $[(\$450,000 \div \$600,000) \times \$450,000]$  to the system and \$112,500  $[(\$150,000 \div \$600,000) \times \$450,000]$  to the installation.

The previous example illustrates the different outcomes that may result from the different judgments necessary to apply Issue 08-1. It also illustrates one of the other significant changes to Issue 00-21, the change in arrangement consideration allocation method to require the relative selling price method for all multiple-deliverable arrangements. That method requires that once selling prices are determined at the inception of an arrangement, consideration is allocated to each respective deliverable on the basis of its relative selling price. Issue 08-1 refers to this method of allocation as the "relative selling price method."

#### Relative Selling Price Method

Issue 08-1 describes the way in which arrangement consideration should be allocated to the individual deliverables and states that "[a]rrangement 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)."

Because of Issue 08-1's new requirements that entities use a three-level hierarchy when establishing the selling price and that they use the relative selling price method when allocating arrangement consideration, the "residual method" under Issue 00-21 is no longer appropriate. Therefore, upon adopting Issue 08-1, entities will be required to estimate the selling price for **all** deliverables that qualify for separation in an arrangement, regardless of whether those deliverables have been delivered or remain undelivered. In comparison, under Issue 00-21, an entity using the "residual method" did not need to determine the fair value of the delivered items if it did not have VSOE or TPE for that item. This new requirement represents a significant change from the accounting under Issue 00-21. To allocate arrangement consideration, many entities will now have to devote time and resources to determine the estimated selling price for delivered items when the residual method was used historically.

Issue 08-1 must be applied prospectively to revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the vendor elects to adopt it retrospectively in accordance with ASC 250 (formerly Statement 154).

### Example C

Entity Y sells a product and related services. Services are purchased for a 12-month term for an annual fee of \$100.

Entity Y enters into an arrangement to deliver the product and provide related services for one year for a total arrangement fee of \$300. Entity Y has determined that VSOE of fair value/selling price for the services is \$100. Entity Y has not historically established VSOE or TPE of fair value/selling price for the product because Y does not sell these items separately and does not consider competitor products to be interchangeable.

Under Issue 00-21, Y applied the residual method to allocate revenue to the deliverables in the arrangement. That is, because Y had established VSOE of fair value for the undelivered item (i.e., the services), Y allocated the remaining consideration to the delivered item. Therefore, under Issue 00-21, Y allocated \$100 to the services and the remaining \$200 to the product.

Because Issue 08-1 prohibits the use of the residual method, Y must determine the estimated selling prices for all deliverables in the arrangement — in this case, the product and related services. As previously noted, Y is unable to establish VSOE or TPE of selling prices for the product. Accordingly, Y must use market- and entity-specific factors to make its best estimate of the selling price for that item.

Assume that Y's best estimate of selling prices for the product is \$250. In this case, Y would need to allocate arrangement consideration to all deliverables on the basis of their relative selling prices as follows:

- Product — \$214 ( $\$250 \div \$350 \times \$300$ ).
- Services — \$86 ( $\$100 \div \$350 \times \$300$ ).

Similarly to Issue 00-21, Issue 08-1 requires that amounts allocated to delivered units of accounting be limited to the amount of consideration that is not contingent on delivering additional items or on meeting other specified performance conditions. Further, under Issue 08-1, the measurement of revenue per period is limited to the amount "that results from assuming that cancellation of the arrangement will not occur." Accordingly, any amounts recorded as either revenue or an asset (in cases in which revenue recognized exceeds cash or other consideration received) are limited to amounts that the vendor is legally entitled to.

### Disclosure Requirements

In addition to the accounting changes outlined above, Issue 08-1 significantly expands the previous disclosure requirements under Issue 00-21. The Task Force expanded the disclosures partly because of the significant judgment that is now required and partly because of the perception by some that disclosures under Issue 00-21 did not provide financial statement users with sufficient decision-useful information regarding multiple-deliverable revenue arrangements. Issue 08-1 introduces the following disclosure objective, which is supplemented with specific detailed disclosure requirements by similar type of arrangement:

The objective of the disclosure guidance in this Section [Issue 08-1] 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 [Issue 08-1] 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.

<sup>17</sup> FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

<sup>18</sup> FASB Statement No. 154, *Accounting Changes and Error Corrections*.



## Transition and Effective Date

Issue 08-1 must be applied prospectively to revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the vendor elects to adopt it retrospectively in accordance with ASC 250<sup>17</sup> (formerly Statement 154<sup>18</sup>). If an entity adopts this Issue retrospectively, it must provide the disclosures required in ASC 250-10-50-1 through 50-3.

Entities that adopt Issue 08-1 prospectively must provide, for each period in the year of adoption, the following additional qualitative disclosures by similar types of arrangements to enable financial statement users to understand the effects of the adoption:

- A description of any change in the units of accounting
- A description of the change in how a vendor allocates the arrangement consideration to various units of accounting
- A description of the changes in the pattern and timing of revenue recognition
- Whether the adoption of [Issue 08-1] is expected to have a material effect on financial statements in periods after the initial adoption.

Issue 08-1 requires that if the effects of adoption are material, an entity disclose supplemental quantitative information to meet the transition disclosure objective. The Issue gives an entity flexibility in determining the form and content of, and the periods in which to provide, the quantitative information. Issue 08-1 also provides several examples of quantitative transition disclosures.

Earlier application is permitted. An entity that elects early application in an interim period other than the beginning of its fiscal year should apply Issue 08-1 retrospectively from the beginning of the entity's fiscal year. For all prior reporting periods of that fiscal year, the entity should disclose the effect of the changes on revenue, income before taxes, net income, and earnings per share, as well as the effect of the change for the appropriate captions presented.

For instance, if an entity whose fiscal year-end is December 31, 2010, elects to adopt this Issue for the period ended September 30, 2010, the entity must retrospectively adjust (in its current and future financial statements) its prior periods ended March 31, 2010, and June 30, 2010, and disclose the effects of the change as described above.

## Appendix — Implementation Considerations

While Issue 08-1 may affect some entities less than others, virtually all entities with multiple-deliverable revenue arrangements will face implementation issues upon adopting Issue 08-1. This appendix lists some items that entities should consider when studying the impact of adopting Issue 08-1.

### Deliverables

#### *Identification of Deliverables in an Arrangement*

Like Issue 00-21, Issue 08-1 requires that entities identify all deliverables in an arrangement before determining whether they can separate those deliverables. However, in practice under Issue 00-21, entities may have placed less significance on identifying all deliverables in arrangements in which they were required to combine deliverables (which often resulted in the deferral of revenue) because they had already identified a deliverable (that was undelivered at the time of the assessment) for which objective and reliable evidence of fair value could not be established under Issue 00-21.

Part of the difficulty in identifying deliverables is that views about which elements of an arrangement constitute a deliverable may differ. For example, during Working Group discussions, there was debate about whether an entity should evaluate certain elements in an arrangement, such as contingent performance obligations, access or standing ready to perform obligations, and governing-type responsibilities, as deliverables when determining an appropriate revenue recognition model.

By eliminating Issue 00-21's separation criterion regarding objective and reliable evidence of fair value for undelivered items, Issue 08-1 actually places a greater burden on entities to identify all deliverables in an arrangement. This is because Issue 08-1 contains less restrictive criteria for accounting for a deliverable as a separate unit of accounting. Unless an entity identifies all the deliverables in a multiple-deliverable arrangement, it cannot satisfy Issue 08-1's requirement to determine the selling price for each deliverable that qualifies for separation and recognize revenue for the individual deliverables appropriately.

#### **Example D**

Entity A enters into an arrangement to provide Items 1 through 5 to a customer. Items 1 through 5 are each delivered at different times during the arrangement. All items in the arrangement have stand-alone value, and no general rights of return are offered. Entity A has determined that its obligation to provide Items 1 and 5 represents two distinct deliverables. Entity A has delivered Item 1 and has concluded that it does not have VSOE or TPE to establish objective and reliable evidence of fair value for undelivered Item 5, the last item to be delivered in the arrangement. Items 2 through 4 may be considered deliverables, but A has not yet finalized that determination.

Under Issue 00-21, A should have determined whether each item in the arrangement is a deliverable. However, without VSOE or TPE of fair value for Item 5, this determination would not ultimately affect the number of accounting units.

Under Issue 00-21, the entire arrangement would be considered a single unit of accounting because A does not have objective and reliable evidence of fair value for the last undelivered item — Item 5. Therefore, in practice under Issue 00-21, A may not have focused its analysis on identifying Items 2 through 4 as deliverables.

However, under Issue 08-1, this arrangement would consist of multiple units of accounting (provided that evidence of fair value was the only criterion in Issue 00-21 that was not met). Entity A would need to use Issue 08-1's selling price hierarchy to establish the selling price of each deliverable when allocating arrangement consideration to it and separately recognizing revenue for it. Determining whether Items 2 through 4 are deliverables may significantly affect the timing and amount of revenue recognition.

#### *Definition of a Deliverable*

Part of the difficulty in identifying deliverables is that views may differ on which elements in a particular arrangement actually represent deliverables. Neither Issue 00-21 nor Issue 08-1 explicitly defines the term "deliverable." Although the Task Force raised this issue in its deliberations, it did not attempt to define the term "deliverable," in part because it encountered challenges with this same issue when developing Issue 00-21 and in part because of the ongoing IASB and FASB joint project on revenue recognition. A key step to applying Issue 08-1 is identifying the deliverables in an arrangement, but because deliverable has not been explicitly defined, entities must use significant judgment when identifying deliverables without a definition with which to apply that judgment. Although Issue 08-1 does not define deliverable, it does require that all delivered items have stand-alone value to be accounted for as a separate unit of accounting. For further discussion of stand-alone value, see the "[Stand-Alone Value](#)" section below.

**Editor's Note:** On December 19, 2008, the IASB and FASB issued a discussion paper,<sup>19</sup> which outlines the boards' preliminary views regarding a comprehensive standard on revenue recognition. Comments on the discussion paper were due by June 19, 2009. The FASB and IASB will consider the comments when preparing an exposure draft, expected to be issued in 2010. The boards are planning to issue a final comprehensive standard on revenue recognition in 2011. For more information about the discussion paper, see Deloitte's [January 6, 2009, Heads Up](#).

Throughout an arrangement, an entity may commit to various "significant" performance obligations (e.g., obligations to provide products, services, and grant licenses), each of which may be likely to constitute a deliverable. An entity may also have various "less significant" or "ancillary" performance obligations under the arrangement. The entity may need to consider such obligations to determine whether they represent deliverables on the basis of the specific facts and circumstances.

A company should consider the following as it analyzes an arrangement — viewed from the perspective of the customer (i.e., the other party to the arrangement) — to identify potential deliverables:

- Whether an item in an arrangement requires a distinct action from the vendor.
- Whether the exclusion of the item from, or the inclusion of the item in, the arrangement would cause the arrangement fee to vary by more than an insignificant amount.
- Whether the vendor's failure to deliver an item results in (1) the customer's receiving a full or partial refund, (2) the vendor's incurring a contractual penalty, or (3) both.
- Whether each performance obligation (e.g., an obligation to provide a product, service, or right, either at a point in time or over the term of the arrangement) has been identified — particularly performance obligations that (1) may be considered ancillary to the "primary" product(s), service(s), or right(s) being sold or (2) do not have explicit monetary values assigned to them under the terms of the arrangement.
- The degree to which an item is essential to the functionality of other products, services, or rights being sold.
- Whether the customer considers an item significant or of value separately from other deliverables.

This list is not all-inclusive. When identifying deliverables, entities should evaluate the facts and circumstances of each arrangement.

### Example E

Entity B enters into an arrangement with a customer to deliver highly specialized equipment. The arrangement requires that upon installation of the equipment, all testing of the equipment occur at the customer's location.

Entity B has previously sold the same equipment separately to other customers, and other vendors can perform the installation of the equipment.

When determining what elements of the arrangement constitute deliverables, B would assess the equipment, installation, testing, and other contractual terms of the arrangement.

Entity B determines that the equipment and the installation are both deliverables because both are sold separately in the marketplace.

Entity B would consider the factors above, among others, when determining whether the testing represents a deliverable. If, during the testing of the product, B allowed the customer's employees to consult its installation technicians about key troubleshooting techniques associated with the equipment and the customer acquired knowledge during that process, B may conclude that testing is a deliverable that it must evaluate in applying Issue 08-1. That is, B may conclude that the testing is important, has value to the customer, and therefore would cause the arrangement fee to vary by more than an insignificant amount.

Conversely, if the testing of the equipment was a standardized process that is considered perfunctory and results in no transfer of knowledge to the customer, B may conclude that testing is simply a quality-control function that is inseparable from the equipment itself and that B should not evaluate testing as a separate deliverable when applying Issue 08-1.

Issue 08-1, like its predecessor Issue 00-21, does not contain a materiality threshold for identifying deliverables in a multiple-element arrangement. However, SAB Topic 13 clarifies that revenue for a unit of accounting may be recognized if the remaining actions to be performed are "inconsequential or perfunctory," provided that all other revenue recognition criteria are met. SAB Topic 13 defines inconsequential or perfunctory actions as those that, if not completed by the vendor, "would not result in the customer receiving a refund or rejecting the delivered products . . . to date."

<sup>19</sup> IASB and FASB Discussion Paper, "Preliminary Views on Revenue Recognition in Contracts With Customers."

SAB Topic 13 also notes that inconsequential or perfunctory actions are not essential to the functionality of the delivered products and that the vendor should have a history of performing these tasks “in a timely manner and reliably estimating the remaining costs.”

On the basis of this SEC guidance, inconsequential or perfunctory obligations would not be considered separate deliverables in an arrangement.

**Editor’s Note:** In practice, contracts often do not indicate whether the failure of the vendor to complete a particular performance obligation would result in the customer’s being able to receive any refund or reject products delivered to date. Accordingly, it will frequently be difficult for a vendor to determine that it has satisfied this condition. In such situations, entities may wish to consult their legal counsel.

## Contingencies in Revenue Arrangements

A contingency in a revenue arrangement may represent a potential deliverable that may be difficult to analyze under Issue 08-1. The Task Force discussed this topic during its deliberations, but ultimately decided not to address contingencies in an arrangement with multiple deliverables, observing that accounting conclusions on this topic are highly dependent on individual facts and circumstances. The Working Group that advised the Task Force on Issue 08-1 discussed two types of contingencies in a revenue arrangement: contingent deliverables and optional purchases.

Under Issue 00-21, if an entity determined that an optional purchase of future products or services was a deliverable under the terms of the original arrangement and objective and reliable evidence of fair value did not exist for it, that undelivered item would fail to meet the separation criteria in Issue 00-21. As a result, an entity often would conclude that such an arrangement should be accounted for as a single unit of accounting under Issue 00-21.

Under Issue 08-1, an entity must still determine whether an optional purchase of future products or services represents a deliverable in the original arrangement. However, if the optional purchase of future products or services is considered a deliverable of the original arrangement, the lack of objective and reliable evidence of fair value for the optional purchase would not preclude separation of deliverables; rather, an entity would have to develop its best estimate of the selling price for the optional purchase. Therefore, whether the optional purchase of future products or services represents a deliverable of the original arrangement may affect the allocation of the arrangement consideration to all the deliverables in the arrangement.

### *Contingent Deliverables*

During Working Group discussions, a contingent deliverable was described as a revenue-generating activity that is contingent upon the occurrence of a future event not exclusively within the control of the customer. If the future event occurs, the vendor is required by the terms of the arrangement to deliver specified products or services. In describing contingent deliverables, the Working Group noted that such deliverables can be contingent on (1) the actions of a party unrelated to the revenue arrangement (such as a governmental agency), (2) the vendor’s actions, or (3) a combination of both. In some industries and arrangements, contingent deliverables may be prevalent and represent deliverables with considerable value.

#### Example F

Entity B is a biotech company that has developed a new technology for monitoring and testing diabetic individuals. Entity B grants Customer X a five-year license to its technology. The terms of the license agreement do not require B (i.e., B is not obligated) to perform any additional research and development activities. However, B agrees (i.e., B has a contingent obligation) that if improvements to its technology are made during the next two years, it will provide X with a license to the updated technology on a when-and-if-available basis. Any new license granted to X will terminate at the same time as the original five-year license.

On the basis of all the facts and circumstances, B determines that the obligation to provide a license for improvements to its technology on a when-and-if-available basis represents a deliverable that must be evaluated and accounted for under Issue 08-1.

#### Example G

Entity C enters into an arrangement in which it agrees (i.e., has an obligation) to provide research and development services to Customer Y on a best-efforts basis for three years. If a commercially viable product is developed as a result of those services, C agrees to manufacture 100 units of the product and deliver them (i.e., has a contingent obligation) to Y. Customer Y agrees to pay C \$1 million for the research and development services.

On the basis of all the facts and circumstances, C determines that the obligation to manufacture and deliver 100 units if a commercially viable product is developed represents a deliverable that must be evaluated and accounted for under Issue 08-1.

### Example H

Entity D is an automobile manufacturer that includes airbags in its Model T cars. Entity D enters into an arrangement to sell 10,000 Model T cars to a regional automobile dealership. Pursuant to the arrangement terms, D agrees that if new safety standards are adopted for the airbags within the next three years and the airbags currently included in the Model T cars do not comply with the new safety standards, D will replace the existing airbags in all 10,000 Model T cars (i.e., has a contingent obligation), even if such replacement is not required by the new safety standards.

On the basis of all the facts and circumstances, D determines that the contingent obligation to replace the airbags represents a deliverable that must be evaluated and accounted for under Issue 08-1.

### *Optional Purchases*

During Working Group discussions, an optional purchase was described as a term in an arrangement that gives a customer the option to purchase products or services in the future. A company must first determine whether an optional purchase of products or services in the future represents a deliverable in the original arrangement. We understand that, in practice, there are at least two general approaches to determining whether an optional purchase of future products or services represents a deliverable of the original arrangement.

Under one approach, an entity analyzes all relevant facts and circumstances to determine the substance of the arrangement. For instance, the entity assesses whether the contractual option to purchase the product or service in the future is truly optional to the customer. If, in substance, the option to buy the future product or service is not truly optional because the customer has no choice but to purchase the future product or service, the optional purchase of future products or services is considered a deliverable of the original arrangement. For example, under this approach, if an arrangement gave a customer the option to purchase future products or services and those future products and services were necessary for the intended use of the delivered product and not readily obtainable from another party, the optional purchase of future products and services would be considered a deliverable of the original arrangement.

If an arrangement's contractual terms represent options to purchase future products and services in which the quantity ultimately purchased is variable but the customer does not really have the option **not** to buy the product or service in the future, an entity would conclude that those options represent deliverables of the original arrangement. In addition, if an optional purchase of products or services in the future is considered a deliverable because the future products or services are necessary for the intended use of the delivered product and not readily obtainable from another party, concerns may be raised about whether the delivered item has stand-alone value and whether the arrangement could be separated into multiple units of accounting.

### Example I

Entity E sells medical equipment to Customer X. To function, the medical equipment needs cartridges that are only sold by E. The arrangement gives X the option of purchasing these cartridges from E.

On the basis of all the facts and circumstances, E determined that X's purchase of cartridges in the future was not truly optional because they are required for the intended use of the equipment and are only sold by E. Therefore, E determined that the optional purchase of the cartridges represents a deliverable in the original arrangement that must be evaluated. Entity E should also carefully evaluate whether the medical equipment has stand-alone value given that its functionality depends on the subsequent delivery of the cartridges.

Another approach presumes that optional purchases of future products or services are not deliverables of the original arrangement because the customer makes separate buying decisions for those future products or services (i.e., delivery of those items is truly at the option of the customer). Supporters of this approach believe that because the customer has the option to subsequently purchase products or services under the terms of the original arrangement, those separate buying decisions represent separate arrangements apart from the original arrangement.

Regardless of the approach applied, if a revenue-generating arrangement contains an option to buy products or services in the future and the substance of the arrangement is that the customer truly can elect whether to purchase any of those products or services, the option should be evaluated as a separate arrangement and not as a deliverable of the original arrangement.

**Editor's Note:** Under either approach, if the optional purchase is not considered a deliverable of the original arrangement, entities should still consider whether a discount on optional purchases is present and whether the discount creates a deliverable. In some arrangements, entities may provide significant and incremental discounts (i.e., discounts above those that are usually provided in comparable transactions and above any discounts related to other elements in the arrangement) on future purchases of products or services.

TIS Sections 5100.50<sup>20</sup> (codified in ASC 985-605-15 and ASC 985-605-55) and 5100.51<sup>21</sup> (codified in ASC 985-605-55) may provide some useful guidance on discounts as well as examples of how to allocate consideration to deliverables in arrangements with significant incremental discounts.

### Example J

Entity X manufactures network computer systems and provides related consulting services. Entity X enters into an arrangement with Customer Y to provide a network computer system and 125 hours of consulting services. The consulting services are priced at \$150 per hour, the rate X typically charges for consulting services. Entity X also agrees to provide a 50 percent discount (such a discount is incremental to the range of discounts typically provided by X in comparable transactions) on future consulting services, up to an additional 100 hours, if requested by Y.

On the basis of all the facts and circumstances, X concludes that the discount on the optional purchase of an additional 100 hours of consulting services should be considered a deliverable in the arrangement and evaluated under Issue 08-1.

## Stand-Alone Value

Issue 08-1 will cause entities to place greater significance on the criterion for determining stand-alone value for delivered items in an arrangement with multiple deliverables (similarly to the identification of deliverables, discussed above). Although Issue 00-21 also required entities to determine whether a delivered item has stand-alone value, in practice, entities that determined they did not have objective and reliable evidence of fair value for an undelivered item did not necessarily focus on determining whether the delivered item had stand-alone value because in such circumstances the vendor had already concluded that it could not separate the deliverables in the arrangement. Issue 08-1's requirement that an entity determine the selling price for undelivered items when separating deliverables into separate units of accounting will, therefore, in certain circumstances place a greater burden on an entity to first determine whether the delivered item or items have stand-alone value.

As a reminder, 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.

The EITF was asked whether it should offer further clarification to help entities determine stand-alone value. The Task Force determined that further guidance on assessing stand-alone value was outside the scope of Issue 08-1. Accordingly, the EITF did not substantively discuss stand-alone value when deliberating Issue 08-1 and did not provide clarifying guidance.

### Example K

Entity X enters into an arrangement to provide equipment and installation. There is no objective and reliable evidence of fair value for the installation service under Issue 00-21, since the equipment is new, installation is complex, and there is no reliable estimate of installation hours or rates for technician time.

The entire arrangement would be considered a single unit of accounting under Issue 00-21, regardless of whether the vendor could substantiate that the delivered equipment has value on a stand-alone basis.

Under Issue 08-1, however, the vendor would need to estimate selling price for the undelivered installation service and allocate the arrangement consideration to the deliverables, provided that the equipment is deemed to have stand-alone value. Accordingly, the vendor would need to determine first whether the delivered equipment has stand-alone value and therefore whether the arrangement consists of a single unit of accounting or two units of accounting.

<sup>20</sup> AICPA Technical Practice Aids, TIS Section 5100.50, "Definition of More-Than-Insignificant Discount and Software Revenue Recognition."

<sup>21</sup> AICPA Technical Practice Aids, TIS Section 5100.51, "Accounting for Significant Incremental Discounts in Software Revenue Recognition."



## Determining Selling Price

The introduction of and required use of a selling price hierarchy, as well as the elimination of the residual method for allocating arrangement consideration, will create a number of implementation issues with Issue 08-1. Specifically, 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, which was permitted under Issue 00-21, entities will be required to determine the estimated selling price of both delivered items (even if VSOE or TPE of selling prices for the undelivered deliverables exists) and undelivered items.

The required use of selling prices will force entities to perform a robust analysis when determining the selling price for deliverables in an arrangement. 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 Issue 08-1’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.

### ***Complying With the Selling Price Hierarchy***

As noted previously, in accordance with Issue 08-1, 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 in Issue 08-1. 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.

The selling price hierarchy starts with determining whether VSOE exists for a deliverable. To establish VSOE for a deliverable, an entity will need to analyze actual pricing practices for that deliverable. Such analyses might include capturing sales of the deliverable for a recent period to determine whether a consistent concentration of sales price exists. For example, if such an analysis indicates that the pricing for 80 percent of recent stand-alone sales of a deliverable falls within a range of plus or minus 15 percent of a midpoint sales price, the vendor may conclude that it has VSOE of selling price for the deliverable and that it would therefore be inappropriate to use a different “estimated selling price” on the basis of other inputs, analysis, or both.

When analyzing actual pricing practices, entities might also consider whether stratification of the sales by customer type (i.e., on the basis of specific characteristics of customers or sales transactions) is appropriate. A concentration of sales prices for a particular deliverable for a certain class of customer could also indicate that VSOE of selling price has been established and that it therefore must be used by the vendor to determine the selling price of the deliverable. We further believe that if a service element consists of entity personnel that are often contracted out under separate arrangements at hourly per diem rates, those rates may be used to establish VSOE of selling price for the services, but only if the entity can reasonably estimate the amount of time that will be required to provide the service. In addition, in determining whether VSOE of selling price for a service element exists, entities might also consider the existence of renewal rates for such deliverables, since in certain circumstances the existence of renewal rates in an arrangement could also serve as VSOE of selling price as long as such rates are substantive.<sup>22</sup>

### **Example L**

Entity X is a manufacturer of heavy equipment that is sold directly to end users. Entity X offers a full year of maintenance service,<sup>23</sup> which is included in the initial purchase price of the equipment. At the end of the initial year of ownership, customers may then purchase additional maintenance services annually at prices that are specifically stated in the initial sales contract. Because customers typically do not possess the necessary skills or resources to efficiently maintain the machinery, most customers renew the maintenance services.

<sup>22</sup> VSOE of fair value is defined in FASB Accounting Standards Codification Subtopic 985-605, *Software: Revenue Recognition* (formerly AICPA Statement of Position 97-2, *Software Revenue Recognition*). ASC 985-605-25-67 specifically refers to the renewal rate for postcontract customer support services as providing evidence of VSOE as long as this rate is substantive. We therefore believe that an analogy to ASC 985-605 would be appropriate and that VSOE of selling price for service deliverables included in an arrangement subject to Issue 08-1 could be established by reference to an explicitly stated substantive renewal rate for such services.

<sup>23</sup> Entity X’s maintenance services are outside the scope of the separately priced extended warranty and product maintenance costs guidance of FASB Accounting Standards Codification Subtopic 605-20, *Revenue Recognition: Services* (formerly FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*).

### Example L (continued)

Entity X sells heavy equipment to Customer B for \$250,000, which includes a full year of initial maintenance services. After one year, B has the option of purchasing additional annual maintenance services for \$15,000 each year for the following five years. While the initial sales price of the equipment varies from list price on the basis of customer profiles (e.g., size, geography), X has established targeted pricing for maintenance services as a percentage of the initial sales price of the equipment. Entity X typically targets maintenance services at 8 percent of the initial sales price, but the ultimate pricing often differs from the targeted rate as a result of negotiations.

On the basis of X's normal pricing practices and other factors, X concludes that the \$15,000 stated renewal rate (6 percent of the initial sales price) in the contract with B is substantive. Accordingly, the stated renewal rate provides VSOE of selling price for the maintenance services.

### Example M

Entity C is an application service provider that hosts on-demand software over the Internet.<sup>24</sup> The software allows entities to manage their customer service call center function online. Entity C typically sells various professional services with the application services, but C's core business is the application services. The initial hosting period is typically two years, and customers may renew the application services for additional two-year periods at the same price specified in the initial sales contract. While the professional services are priced at a standard rate per hour, the pricing for the application services will vary depending on the customer's industry, the different applications included, and negotiated discounts. On the basis of historical experience, C is able to demonstrate that a substantial majority of its customers renew the application services at the stated price.

Entity C sells application services to Customer D for \$50,000 for an initial two-year period. The arrangement also includes certain professional services that are billed at a stated rate per hour. Customer D has the option to renew the application services indefinitely for additional two-year periods at the stated rate of \$50,000.

On the basis of C's normal pricing practices and other factors, C concludes that the \$50,000 stated renewal rate in the contract with D is substantive. Accordingly, the stated renewal rate would provide VSOE of selling price for the application services.

In determining whether TPE exists, entities should, without undue cost and effort (this list is not all-inclusive):

- Assess the marketplace in which they operate.
- Look to competitors' products and services to determine whether such products and services are largely interchangeable with their own products or services.
- Determine whether competitors' products and services are offered to customers that are similarly situated to their own.
- Consider whether such sales are made on a stand-alone basis.

In determining whether the products or services are interchangeable, a vendor needs to consider the degree of customization of the vendor's products and services and, for service elements, the levels of skill, training, and experience that are needed to provide such services. A vendor should also consider the types of customers purchasing the products and services from third parties to ensure that those customers are similar to the vendor's own customers. For example, in certain situations, it would not be appropriate for a retailer of a product to use sales of the same product by a wholesaler as TPE of selling price, since the nature of a retailer and wholesaler and their position in the supply chain are significantly different.

If a vendor determines that largely interchangeable products or services exist that are sold to similarly situated customers, it must then determine whether "readily determinable" information (i.e., available without undue cost or effort) about competitors' pricing practices exists. For elements to support TPE of selling price, a vendor would need to analyze the readily determinable information to determine whether there is an appropriate concentration in pricing. Sources a vendor should consider in accumulating TPE of selling price might include published list prices, quoted marketplace prices, industry reports, and statistics or other sources of publicly available information. However, entities must also consider the existence of, or common practices related to, discounts on products and services from published list prices. In summary, among other factors, the absence of a sufficient concentration in pricing, a lack of stand-alone sales, or the dissimilarity of customer types would indicate that TPE of selling price does not exist.

<sup>24</sup> Entity C's application services are outside the scope of ASC 985-605.

## Example N

Entity X has recently developed and patented a unique substance that can be infused into the rubber compound found within golf balls, thus significantly increasing their durability and extending their playable life. Although no other entities have developed such a highly innovative substance, the market is highly competitive; thus, such technologies often become obsolete over a period of two to three years. Entity X has not previously licensed its recently developed substance.

Entity X has entered into a \$500,000 contract with a golf ball manufacturer. The contract provides the manufacturer with a one-year nonexclusive license to use X's patented substance and requires X to deliver ratably, over a three-month period, 10,000 golf balls that contain the patented substance. Under the terms of the contract, the manufacturer has the ability to transfer the license. While X has previously used its patented substance to manufacture golf balls during its development effort, X has not previously sold those golf balls as a commercial product.

On the basis of all the facts and circumstances, X determines that neither VSOE or TPE of selling price can be established for the deliverables in this arrangement (i.e., the one-year license and the delivery of 10,000 golf balls). Therefore, X will have to make its best estimate of the selling price for the license and the golf balls.

In reaching its conclusion, X notes that its licensed substance is a proprietary product of X that it has never licensed before, and that VSOE of selling price therefore does not exist. Entity X also notes that no other substances similar to X's substance are currently on the market. Thus, X determines that there are no comparable third-party transactions that can be used to establish TPE of selling price.

In reaching its conclusion regarding the golf ball deliverable, X notes that it has never previously sold golf balls and does not intend to do so in the future. Thus, X determines that VSOE of selling price does not exist for the golf balls. Entity X also carefully considers whether the stand-alone sales of other golf balls could provide TPE of selling price. While the golf ball manufactured by X looks identical to other golf balls currently on the market and can be used for the same intended purpose, X believes its golf ball is nonetheless sufficiently different from the other golf balls because of the inclusion of its patented substance, which X believes represents a degree of customization and enhanced performance capability not found in other golf balls. Accordingly, X determines that the sale of other golf balls does not constitute TPE of selling price.

We further note that the selling price hierarchy creates an interesting complexity and implementation issue. Whereas under Issue 00-21, entities may have commonly found themselves trying to support the existence of VSOE or TPE of fair value for deliverables, under Issue 08-1, entities may also find themselves having to support the fact that VSOE or TPE of selling prices for deliverables does **not** exist in instances in which the best estimate of selling price is used to allocate consideration to separate units of accounting. As a result of this requirement, entities could need to expend additional effort when accounting for revenue arrangements with multiple deliverables.

### *Updating the Selling Price Analysis*

Because Issue 08-1 requires an entity to apply the selling price hierarchy to each arrangement, an entity must consider its compliance with the selling price hierarchy for each new multiple-element arrangement. For example, an entity may have determined that VSOE and TPE of selling price did not exist for a certain deliverable and may, therefore, have used its best estimate of selling price for that deliverable to allocate arrangement consideration. Conversely, an entity may have previously concluded that VSOE or TPE of selling price did exist for deliverables and used that evidence to allocate arrangement consideration to a multiple-deliverable arrangement.

Entities should continually analyze their business, as well as the overall market landscape, and update their assessment of whether VSOE or TPE of selling prices exists (or does not exist) whenever facts and circumstances come to light that might change any previous assessments made by the company. The frequency with which entities will perform or update such analyses will vary on the basis of the nature of an entity's business and levels of variability in their pricing policies. Timing and frequency of such analyses will differ on the basis of the nature of the industry/marketplace in which an entity operates.

Specifically, we would expect entities that allow their sales personnel a larger degree of flexibility in pricing negotiations with customers, or whose product and service values change rapidly as a result of supply-and-demand issues or changes in technology, to perform analyses of VSOE or TPE of selling price more frequently than entities that do not exhibit more-than-minimal price fluctuation and whose products and services are not affected by technological change. Other factors that may affect the frequency of such analyses are the useful life of an entity's products and services, where in the life cycle their products and services are, and the related impact on pricing strategies.

### Example O

Entity X is a distributor of certain consumer electronic products and primarily sells the products to retailers in bundled arrangements. Entity X specializes in identifying the latest trends in consumer electronics, and many of its products are high-tech novelty items that have a relatively short life cycle, sometimes as short as one or two years. Because of changes in trends and technology, the pricing for X's products is often subject to significant price reductions throughout the product's life cycle. Upon the launch of a new product, X will provide a large degree of pricing latitude to its sales personnel to get its products in the stores. However, when or if a sufficient market develops for its products, X will tighten its pricing practices.

On the basis of the nature of its pricing practices and products, X concludes that it will perform an updated analysis of its pricing practices on a quarterly basis to determine the selling price for each product and whether it will be based on VSOE, TPE, or best estimate of selling price.

Entities should at least, in connection with every reporting period, consider any changes in facts and circumstances that could affect any previous conclusions reached about whether VSOE or TPE of selling price exists and document such considerations. Any updated analyses of actual pricing practice will be most relevant if performed in a manner consistent with what was done when the company first determined whether VSOE or TPE of selling price existed.

**Editor's Note:** In addition to updating the selling price determined by using VSOE or TPE, a company should periodically reassess and update its own best estimates of selling prices (i.e., selling prices that represent a vendor's best estimate of the deliverable's selling price). The frequency and extent of such updates will vary on the basis of factors similar to those described above with respect to VSOE and TPE of selling price.

### ***Impact on Prior and Future Arrangements When VSOE or TPE of Selling Price Is Established After the Inception of a Revenue Arrangement***

As discussed earlier, an entity's assessment of whether VSOE or TPE of selling price exists will be an ongoing activity. Issue 08-1 requires that arrangement consideration be allocated to all deliverables at the **inception** of a revenue arrangement. Therefore, if an entity subsequently establishes VSOE or TPE of selling price for a deliverable to which arrangement consideration was previously allocated on the basis of the entity's best estimate of selling price, the subsequent establishment of VSOE or TPE of selling price would have no effect on arrangements that had already been entered into — regardless of whether deliverables under those arrangements remained undelivered. There would be an effect, however, on new arrangements entered into after the establishment of VSOE or TPE of selling price. In those new arrangements, the entity would need to allocate arrangement consideration to the element(s) on the basis of the recently established VSOE or TPE of selling price. The entity would also need to consider the effects on its disclosures as a result of the change.

These same principles would apply to situations in which TPE of selling price was being used to allocate consideration to a deliverable and VSOE of selling price for the deliverable was subsequently established.

### ***Developing the "Best Estimate of Selling Price" When VSOE or TPE of Selling Price Cannot Be Established***

The Task Force considered providing further guidance on the various methods for determining the best estimate of selling price. However, the Task Force ultimately determined that Issue 08-1 provides a clear principle for constituents to use to make their own assessment of acceptable methods and that more detailed guidance was not necessary.

Accordingly, an entity will need to use significant judgment when evaluating what method(s) to use in developing its best estimate of selling price for deliverables. A company should evaluate each deliverable separately and determine which method will provide the best estimate for that particular deliverable on the basis of the deliverable's specific characteristics. Two examples that Issue 08-1 included in the amendments to ASC 605-25-55 depict possible methods entities might use to illustrate selling prices for particular deliverables.

In Example 6 — Human Resources Outsourcing Services, a vendor is providing a variety of human-resource-related services consisting of payroll processing services, executive compensation assessments, development of an employee handbook, and the delivery of three periodic training events. Because none of these services have been sold separately before, the vendor is unable to establish VSOE of selling price for any of the services and cannot establish TPE of selling price for these deliverables. Therefore, the vendor must estimate the selling price for each of the services provided in the arrangement. As illustrated in this example, the vendor estimates selling prices for the four deliverables by first calculating the internal costs to be incurred during the delivery of each of the services and then applying their typical gross profit margin, resulting in an estimated selling price for each of the deliverables.

Similarly to Example 6, Example 11 — Agricultural Equipment illustrates a scenario in which the cost of the equipment plus an estimated gross profit margin is used to determine the best estimate of selling price. Example 11 also illustrates how the determination of the estimated gross margin includes various data points, such as geographical location, competitor information, and technological complexity.

We expect that in many scenarios, entities would apply a method similar to that illustrated in Examples 6 and 11 when estimating the selling price of deliverables subject to Issue 08-1. That is, in many scenarios, it would be appropriate to use a “cost plus gross profit margin” method to determine the best estimate of selling price.

However, we also believe that there will be situations in which the determination of an entity’s best estimate of selling price is more complex. In these situations, an entity will need to consider factors other than cost and gross margins, such as various market- and entity-specific factors (as discussed below).

### ***Assessing Market- and Entity-Specific Factors When Establishing the Best Estimate of Selling Price***

Market-specific factors that an entity may consider when developing the best estimate of selling price for a deliverable or deliverables determined to be a separate unit of accounting include, among others:

- Customer demand.
- The existence of and effect of competitors.
- General profit margins realized in the marketplace or industry.
- The effect that technological advancements may have on the deliverables, risk of obsolescence, or both.
- Overall condition of the economy and economic trends.
- Customers’ internal costs (and fluctuations of costs) of making products or providing services themselves, which might influence their purchasing decisions.

Entity-specific factors that a vendor may consider when developing the best estimate of selling price for a deliverable or deliverables determined to be a separate unit or units of accounting include, among others:

- The entity’s internal costs of providing the deliverable(s).
- The entity’s profit objectives, including targeted and historical profit margins realized on similar sales to similar customers.
- The entity’s pricing practices in providing discounts for bundled sales, volume discounts, and any other discounting practices that may exist.
- The entity’s required rates of return.

An entity should weigh the relevance of all available data points before concluding on the best estimate of selling price. The entity should document such considerations along with the specific rationale that led to its conclusion about the best estimate of selling price. Because of the requirement that entities develop their best estimate of selling price and cannot merely conclude that neither VSOE nor TPE of selling price exists, entities will need to prepare a robust analysis supporting their best estimate of a deliverable’s selling price, including a discussion of the various data points that were considered and evaluated as part of that analysis.

In addition, whereas the determination of whether VSOE or TPE of selling price exists could largely be performed within an entity’s accounting department, developing the best estimate of selling price may require entities to use resources outside the accounting group. Personnel in other areas of the business (e.g., sales, operations, planning, marketing, and other departments) may need to be involved to ensure that all appropriate entity-specific and market factors are considered before a conclusion is reached on an entity’s best estimate of selling price.

### ***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 or TPE of selling price 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. 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).
- Sells a product with very high margins, which may result in significant dispersion of selling price.

- 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, as previously discussed).
- 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.

#### ***Degree of Reliability for "Best Estimate of Selling Price"***

During deliberations of Issue 08-1, the FASB staff and Task Force agreed that a vendor would generally have enough information to make a reliable estimate of selling price. The Task Force did acknowledge that it may be difficult to estimate the selling price in certain instances, because of the limited information available from either the vendor's own transactions or similar transactions in the marketplace. However, the Task Force was willing to accept potential measurement inaccuracies for the benefit of allowing an entity the ability to separate deliverables into separate units of accounting to recognize revenue upon delivery of a product or performance of a service to better reflect the economics of most transactions. That is, relevance of the business economics would outweigh the reliability of best estimates.

Although it may be difficult to estimate selling price in certain situations, entities are nonetheless required to develop estimates and use them to allocate revenue to multiple deliverables that otherwise qualify for separation. We would expect that in such situations, an entity would consider multiple inputs and consider involving third-party specialists to help improve the reliability of the estimate.

#### ***Using a Single-Point Estimate Versus a Range for Determining "Best Estimate of Selling Price"***

Issue 08-1 specifies that an entity's best estimate of selling price should be consistent with the objective of determining VSOE of selling price for a deliverable (i.e., the price at which the vendor would transact if the deliverable were sold by the vendor regularly on a stand-alone basis). It also indicates that contractually stated prices for individual products or services in an arrangement should not be presumed to represent the best estimate of selling price.

Issue 08-1 does not specify whether an entity's best estimate of selling price should be expressed as a single-point estimate or whether it can be expressed as a range. Similarly, Issue 08-1 does not provide explicit guidance regarding a range versus a single-point estimate with respect to VSOE or TPE of selling price. In the two previously noted examples from Issue 08-1 (Examples 6 and 11), the best estimate of selling price is expressed as a single-point estimate.

We believe that the use of a single-point best estimate of selling price is generally preferable because it is more precise and, in similar arrangements, allows for greater consistency.

However, many entities have established VSOE of selling price on the basis of a range of actual sales transactions. In practice, entities often consider many factors when determining the appropriate selling price of a deliverable, such as the type, size, prestige, or strategic significance of a customer; prior relationship or future sales potential with the customer; or size/volume of the sale. Because the deliverable is sold at varying amounts to similarly situated customers, there is no specific amount that represents VSOE of selling price. In establishing VSOE of selling price, an entity may therefore sometimes determine a reasonable range of sufficiently concentrated prices that it believes represents VSOE of selling price. Since the objective of establishing VSOE of selling price is similar to the objective of determining an entity's best estimate of selling price (under Issue 08-1), it may be acceptable for an entity to use a range to establish the best estimate of selling price.

#### **Transition**

Issue 08-1 must be applied prospectively to revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless an entity elects retrospective application in accordance with ASC 250 (formerly Statement 154). While earlier application is permitted, an entity that elects early adoption of Issue 08-1 in an interim period other than the beginning of its fiscal year should apply the Issue as of the beginning of the entity's fiscal year. That is, if an entity with a December 31 year-end elects earlier application of Issue 08-1, that entity must apply the guidance beginning on January 1.

**Editor's Note:** At the September 23, 2009, Board meeting to ratify this Issue, the FASB staff clarified with the Board that even though the ASU for Issue 08-1 would not be issued until October, entities could early adopt its guidance as of September 30, 2009.



## Materially Modified Revenue Arrangements

During Issue 08-1's public-comment exposure period, questions arose regarding the meaning of "materially modified," specifically whether it referred only to financial impacts or whether it could also apply to other important terms and conditions that would not necessarily affect the amount of revenue included in an arrangement. The Task Force decided it was not necessary to clarify the meaning of materially modified, believing that it would be difficult to address all situations in which an arrangement may be materially modified or in which a modification would not be considered a material modification.

In assessing whether an arrangement is materially modified, an entity should evaluate both the quantitative and the qualitative implications of the modification. We do not believe it is appropriate for an entity to evaluate the modification on the basis of the quantitative or qualitative impact to the financial statements as a whole; rather, the modification should be assessed with respect to the individual arrangement. Entities should evaluate the business purpose for any modification and whether the modification is substantive. While changing the consideration under an arrangement may often be considered a material modification, we also believe that other changes to an arrangement, such as adding or removing deliverables, exchanging one deliverable for another, or extending the period of performance under an arrangement may also, under certain circumstances, represent a material modification to a revenue arrangement.

### Example P

Entity X, an equipment manufacturer, enters into a multiple-deliverable revenue arrangement to deliver 20 machines and 20 related user manuals to Customer Y, install the 20 machines at Y's site, and provide monthly safety inspection and testing services for two years after the date of installation. Under the original terms of the contract, payment terms are 30 days after installation of the 20 machines, and monthly for the safety inspection and testing services.

After delivery, but before installation, of the machines, X modifies its arrangement to provide five additional user manuals and extends the payment term for the 20 machines to 45 days after installation.

Entity X would need to evaluate the business purpose for the contract modifications as well as the quantitative and qualitative implications of the modifications to the contract. On the basis of its evaluation of all the facts and circumstances, X concludes that its arrangement has not been materially modified. Entity X determines that delivery of five additional user manuals represents an inconsequential obligation and that extending the payment terms on the machines from 30 to 45 days is consistent with industry standards and does not present significant additional risk to X or a concession on the part of X.

### Example Q

Assume the same facts as in the example above except for the following:

After delivery, but before installation, of the machines, X modifies its arrangement to extend the monthly safety inspection and testing services from two to three years and agrees to provide the customer access to a "help desk technician" 24 hours a day, 7 days a week, for three months after installation.

Entity X would need to evaluate the business purpose for the contract modifications as well as the quantitative and qualitative implications of the modifications to the contract. On the basis of its evaluation of all the facts and circumstances, X concludes that its arrangement has been materially modified. Entity X determines that providing monthly safety inspection and testing services for an additional year, as well as access to a technician for three months, represents significant additional deliverables.

## Disclosures

Issue 08-1 significantly expands the previous disclosure requirements under Issue 00-21.

The enhanced disclosure requirements are intended to provide financial statement users with a much more robust discussion regarding the significant deliverables in an entity's multiple-deliverable revenue arrangements. The objective of the disclosures is to discuss both qualitative and quantitative information regarding the significant judgments used to apply Issue 08-1, any changes in the entity's pricing or business practices that would affect those judgments, and the resulting impact of any changes in the timing and amount of revenue to recognize in future periods. Issue 08-1 requires the following disclosures by 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 this Subtopic [Issue 08-1] 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.

A vendor shall disclose 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.

Because these disclosures significantly expand on the previous disclosures under Issue 00-21, it will be significantly more difficult for entities to comply with them. Financial statement preparers will need to assess their ability to isolate this information from 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 in the selling price section, determining when and how often to reassess selling price for individual deliverables will require significant judgment, as will disclosing the “significant effect on the allocation of arrangement consideration” from those changes. For example, the term “significant effect” is not defined for 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***

Issue 08-1 requires that an entity provide additional qualitative disclosures in the year of adoption when Issue 08-1 is adopted prospectively. Qualitative disclosures should enable financial statement users to understand the effect of adopting Issue 08-1 prospectively by similar types of arrangements. If the changes from adopting Issue 08-1 are material, an entity must also provide supplemental quantitative disclosures, although Issue 08-1 does not prescribe any specific disclosures. Issue 08-1 does, however, give the following examples of quantitative disclosures:

- The amount of revenue that would have been recognized in the year of adoption if the related arrangements entered into or modified after the effective date were subject to the measurement requirements of Subtopic 605-25 (before the amendments resulting from [Issue 08-1])
- 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 [Issue 08-1]) were subject to the measurement requirements of [Issue 08-1]
- For arrangements that precede the adoption of [Issue 08-1], 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 [Issue 08-1]). For arrangements that were entered into or materially modified after the effective date of [Issue 08-1], the amount of revenue recognized in the reporting period and the amount of deferred revenue as of the end of the period from applying [Issue 08-1].

If an entity provides one of the disclosures in the above examples, it must either maintain two sets of accounting records in the year of adoption (one in accordance with Issue 08-1 and one maintaining the revenue that would have been recognized in accordance with Issue 00-21), or determine how Issue 08-1 would have affected arrangements entered into or materially modified in the prior year. Even entities that had VSOE or TPE of selling price of undelivered items under Issue 00-21 and that therefore account for the separate deliverables in an arrangement as separate units of accounting (provided that all aspects of paragraph 9 had been satisfied) may have to disclose the impact of applying the relative selling price method rather than Issue 00-21’s 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 its 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.

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