

REVISION TO *EITF ABSTRACTS*

Issue No. 00-21

Title: Revenue Arrangements with Multiple Deliverables

Scope Language Revisions

At the May 15, 2003 EITF meeting, the Task Force discussed and finalized certain revisions to the scope language in paragraph 4(a) of Issue 00-21. The purpose of those revisions is to clarify the application of Issue 00-21 to a multiple-deliverable arrangement (or a deliverable(s) in a multiple-deliverable arrangement) that is within the scope of higher-level authoritative literature. Specifically, the revisions clarify that the higher-level literature, to which one or more of the deliverables in an arrangement are subject, falls into one of the following three categories:

1. Higher-level literature that provides guidance regarding separation of the deliverables and allocation of arrangement consideration.
2. Higher-level literature that requires separation of the deliverables that are within the scope of higher-level literature from those that are not, but provides no guidance regarding allocation of the arrangement consideration to the deliverables that are within the scope of higher-level literature and to those that are not.
3. Higher-level literature that provides no guidance regarding the separation of deliverables that are within the scope of that higher-level literature from those that are not, or the allocation of arrangement consideration to the deliverables that are within the scope of the higher-level literature and to those that are not.

The Task Force believes that the following revised scope language adequately addresses the application of Issue 00-21 under each of the three circumstances described above. Accordingly, they agreed that the following language would replace the existing language in paragraph 4(a) currently in *EITF Abstracts*.¹

A multiple-deliverable arrangement or a deliverable(s) in a multiple-deliverable arrangement may be within the scope of higher-level authoritative literature.¹ That higher-level authoritative literature (including, but not limited to, Statements 13, 45, and 66; Interpretation 45; Technical Bulletin 90-1; and SOPs 81-1, 97-2, and 00-2) (referred to hereinafter as "higher-level literature") may provide guidance with respect to whether and/or how to allocate consideration of a multiple-deliverable arrangement. The following describes the three categories into which that higher-level literature falls and the application of this Issue or the higher-level literature in determining separate units of accounting and allocating arrangement consideration:

¹ For an enterprise that adopted the consensus in this Issue prior to the May 15, 2003 meeting, the revised guidance in paragraph 4(a) should be treated as a new consensus subject to the transition and effective date provisions in *EITF Abstracts*, Topic No. D-1, "Implications and Implementation of an EITF Consensus," as revised at the May 15, 2003 meeting.

- i. If higher-level literature provides guidance regarding the determination of separate units of accounting and how to allocate arrangement consideration to those separate units of accounting, the arrangement or the deliverable(s) in the arrangement that is within the scope of that higher-level literature should be accounted for in accordance with the relevant provisions of that literature rather than the guidance in this Issue.
- ii. If higher-level literature provides guidance requiring separation of deliverables within the scope of higher-level literature from deliverables not within the scope of higher-level literature, but does not specify how to allocate arrangement consideration to each separate unit of accounting, such allocation should be performed on a relative fair value basis using the entity's best estimate of the fair value of the deliverable(s) within the scope of higher-level literature and the deliverable(s) not within the scope of higher-level literature.^{2,3} Subsequent accounting (identification of separate units of accounting and allocation of value thereto) for the value allocated to the deliverable(s) not subject to higher-level literature would be governed by the provisions of this Issue.
- iii. If higher-level literature provides no guidance regarding the separation of the deliverables within the scope of higher-level literature from those deliverables that are not or the allocation of arrangement consideration to deliverables within the scope of the higher-level literature and to those that are not, then the guidance in this Issue should be followed for purposes of such separation and allocation.⁴ In such circumstances, it is possible that a deliverable subject to the guidance of higher-level literature does not meet the criteria in paragraph 9 of this Issue to be considered a separate unit of accounting. In that event, the arrangement consideration allocable to such deliverable should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

¹ Whether a deliverable(s) is within the scope of higher-level authoritative literature is determined by the scope provisions of that literature, without regard to the order of delivery of that item in the arrangement. The term *higher-level literature* refers to categories (a) and (b) of the generally accepted accounting principles (GAAP) hierarchy as defined in AICPA Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*. EITF consensuses represent category (c) of the hierarchy.

² Solely for purposes of the allocation between deliverables within the scope of higher-level literature and deliverables not within the scope of higher-level literature, an entity's best estimate of fair value is not limited to vendor-specific objective evidence of fair value or third-party evidence of fair value, as those concepts are discussed in paragraph 16 of this Issue.

³ For example, leased assets are required to be accounted for separately under the guidance of Statement 13. Consider an arrangement that includes the lease of equipment under an operating lease, the maintenance of the leased equipment throughout the lease term (executory cost), and the sale of additional equipment unrelated to the leased equipment. The arrangement consideration should be allocated between the Statement 13 deliverables and the non-Statement 13 deliverables on a relative fair value basis using the entity's best estimate of fair value of the Statement 13 and non-Statement 13 deliverables. (Although Statement 13 does not provide guidance regarding the accounting for executory costs, it does provide guidance regarding the allocation of arrangement

consideration between the lease and the executory cost elements of an arrangement. Therefore, this example refers to the leased equipment and the related maintenance as Statement 13 deliverables.) The guidance in Statement 13 would then be applied to separate the maintenance from the leased equipment and to allocate the related arrangement consideration to those two deliverables. This Issue would be applied to further separate any non-Statement 13 deliverables and to allocate the related arrangement consideration.

⁴ For example, SOP 81-1 provides separation and allocation guidance (segmentation provisions) for deliverables within its scope. However, SOP 81-1 does not provide separation and allocation guidance between SOP 81-1 deliverables and non-SOP 81-1 deliverables. Consider an arrangement that includes designing complex electronic equipment, manufacturing complex electronic equipment (both SOP 81-1 deliverables), and providing the service of running the equipment for a fixed period of time once the equipment is designed, manufactured, and placed in service (a non-SOP 81-1 deliverable). This Issue would be applied to identify separate units of accounting and to allocate arrangement consideration to those separate units of accounting. If applying the guidance in this Issue results in the separation of the design and manufacture of the equipment from the service of running the equipment, the segmentation provisions of SOP 81-1 would be used to determine if it is appropriate to further segment the design deliverables from the manufacture deliverables in accordance with its segmentation provisions. If this Issue prohibits separation of the SOP 81-1 deliverables from the non-SOP 81-1 deliverables, then the amounts otherwise allocable to the design and manufacture deliverables and to the service of running the equipment should be combined. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

Revision to Example 8 in Exhibit 00-21B

At the May 15, 2003 EITF meeting, the Task Force reached a consensus on EITF Issue No. 03-5, "Applicability of AICPA Statement of Position 97-2, *Software Revenue Recognition*, to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software." That consensus requires that, in an arrangement that contains software that is more than incidental to the products or services as a whole, all software deliverables and all non-software deliverables in the arrangement that meet certain criteria are within the scope of SOP 97-2. Example 8 of Issue 00-21 involves the sale of a computer system that consists of a CPU, monitor, and keyboard. The Task Force agreed that the following revision should be made to the first paragraph of Example 8 to clarify that, in that example, the CPU does not include more-than- incidental software, and, therefore, is not subject to SOP 97-2 (additions are underscored):

Example 8—Sale of Computer System

Company B sells computer systems. On April 20, a customer purchases a computer system from Company B for \$1,000. The system consists of a CPU, a monitor, and a keyboard. Solely for purposes of simplifying this illustration of the application of the guidance in this Issue, it is assumed that the CPU does not include software that is more-than-incidental to the products in the arrangement; therefore, the provisions of SOP 97-2 do not apply. On April 30, Company B delivers the CPU to the customer without the monitor or keyboard. Each of the items can be purchased separately at a cost of \$700 for the CPU, \$300 for the monitor, and \$100 for the keyboard. The CPU could function with monitors or keyboards manufactured by others, who have them readily available. The customer is entitled to a refund equal to the separate price of any item composing

the system that is not delivered. The arrangement does not include any general rights of return. Company B is evaluating whether delivery of the CPU represents a separate unit of accounting.