

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2009-14  
October 2009

### Software (Topic 985)

Certain Revenue Arrangements That Include  
Software Elements

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*<sup>™</sup>

Financial Accounting Standards Board  
of the Financial Accounting Foundation

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## Summary

### Why Is the FASB Issuing This EITF-Developed Accounting Standards Update (Update)?

The objective of this Update is to address concerns raised by constituents relating to the accounting for revenue arrangements that contain tangible products and software. Currently, products that contain software that is “more than incidental” to the product as a whole are within the scope of the software revenue guidance in Subtopic 985-605, Software—Revenue Recognition. Subtopic 985-605 requires a vendor to use vendor-specific objective evidence of selling price to separate deliverables in a multiple-element arrangement. A vendor must sell or intend to sell a particular element separately to assert vendor-specific objective evidence for that element. If a vendor does not have vendor-specific objective evidence for the undelivered elements in an arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered products is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor.

Constituents have raised concerns that this accounting model does not appropriately reflect the economics of the underlying transactions because no revenue is recognized for products for which the vendor has already completed the related performance. In addition, constituents have raised concerns that the guidance in Subtopic 985-605 was originally developed primarily for traditional software arrangements. Some constituents maintained that more software-enabled products now fall or will fall within the scope of that guidance than originally intended because of ongoing technological advances.

### Who Is Affected by the Amendments in This Update?

The amendments in this Update affect vendors that sell or lease tangible products in an arrangement that contains software that is more than incidental to the tangible product as a whole. The amendments clarify what guidance should be used in allocating and measuring revenue. The amendments in this Update do not provide guidance on when revenue should be recognized; however, it is likely that vendors affected by the amendments in this Update will recognize revenue earlier than they had previously because of the different allocation, measurement, and recognition guidance that exists in different revenue guidance including the amendments resulting from Accounting Standards Update No.

2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (A Consensus of the FASB Emerging Issues Task Force), as further described below.

The amendments in this Update do not affect software revenue arrangements that do not include tangible products. They also do not affect software revenue arrangements that include services if the software is essential to the functionality of those services.

## What Are the Main Provisions?

### Accounting Guidance

The amendments in this Update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605. In addition, the amendments in this Update require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, the amendments in this Update provide additional guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance.

If the software contained on the tangible product is essential to the tangible product's functionality, the software is excluded from the scope of the software revenue guidance. This exclusion includes essential software that is sold with or embedded within the product and undelivered software elements that relate to that tangible product's essential software. For example, if a vendor sells a computer that includes an operating system that is deemed essential to that computer's functionality and also sells postcontract customer support services for that operating system, both the operating system and the support services in the arrangement are excluded from the scope of the software revenue guidance.

The Task Force provided numerous examples to assist vendors in applying the guidance in the amendments in this Update. In addition, the Task Force identified the following factors to consider in determining whether the tangible product contains software that works together with the nonsoftware components of the tangible product to deliver the tangible product's essential functionality:

1. If sales of the tangible product without the software elements are infrequent, a rebuttable presumption exists that software elements are essential to the functionality of the tangible product.
2. A vendor may sell products that provide similar functionality, such as different models of similar products. If the only significant difference



between similar products is that one product includes software that the other product does not, they will be considered the same product for the purpose of evaluating factor (1).

3. A vendor may sell software on a standalone basis. The vendor also may sell a tangible product containing that same software. The separate sale of the software does not lead to a presumption that the software is not essential to the functionality of the tangible product.
4. Software elements do not need to be embedded within the tangible product to be considered essential to the tangible product's functionality.
5. The nonsoftware elements of the tangible product must substantively contribute to the tangible product's essential functionality. For example, the tangible product should not simply provide a mechanism to deliver the software to the customer.

The amendments in this Update also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. If a tangible product contains software that is not essential to the product's functionality, that nonessential software and any other deliverables within the arrangement (other than the nonsoftware components of the tangible product) that relate to that nonessential software are within the scope of the software revenue guidance in Subtopic 985-605. If an undelivered element relates to a deliverable within the scope of Subtopic 985-605 and a deliverable excluded from the scope of Subtopic 985-605, the undelivered element shall be bifurcated into a software deliverable and a nonsoftware deliverable. The software deliverable is within the scope of Subtopic 985-605 and the nonsoftware deliverable is not within the scope of Subtopic 985-605. The amendments also provide further guidance on how to allocate arrangement consideration when an arrangement includes deliverables both included and excluded from the scope of the software revenue guidance.

## Disclosures

Vendors that are affected by the amendments in this Update are required to provide disclosures that are included within the amendments in Update 2009-13, which is being issued concurrently with this Update. The amendments in Update 2009-13 significantly expand the disclosure requirements for multiple-deliverable revenue arrangements.

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

The amendments in this Update coupled with the amendments resulting from Update 2009-13 will significantly improve the reporting of certain transactions to

more closely reflect the underlying economics of the transactions. Currently, the absence of vendor-specific objective evidence of selling price of the undelivered item in an arrangement is a common reason entities are unable to separate deliverables in an arrangement involving tangible products that include software. In those situations, the timing of revenue recognition may be deferred until the delivery of the last deliverable or the entire fee may be recognized over the period during which the last deliverable is delivered or performed. As a result, constituents have maintained that the accounting often does not reflect the underlying economics of a transaction. The amendments in this Update revise the scope of the software revenue guidance such that software-enabled tangible products would not be within its scope. The most significant effect of this would be that a vendor will no longer need to have vendor-specific objective evidence of selling price of the undelivered elements sold with a software-enabled tangible product; this is expected to increase a vendor's ability to separately account for the sale of those products from any undelivered elements in an arrangement including those products.

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

## When Will the Amendments Be Effective?

The amendments in this Update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the vendor's fiscal year, the vendor is required to apply the amendments in this Update retrospectively from the beginning of the vendor's fiscal year.

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

A vendor is required to adopt the amendments in this Update in the same period using the same transition method that it uses to adopt the amendments in Update 2009-13.

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

IFRS does not have specific revenue-related guidance for arrangements that include software. Additionally, IFRS provides little guidance about the allocation of consideration in multiple-element arrangements. However, IFRS requires vendors to assess the substance of a transaction when determining whether multiple deliverables should be separated or combined for accounting purposes. Accordingly, the amendments in this Update are expected to more closely align the accounting for multiple-deliverable revenue arrangements that include software-enabled products between U.S. GAAP and IFRS.

Because U.S. GAAP provides detailed guidance about the separation and allocation of multiple-deliverable arrangements as compared with the guidance in IFRS, differences may still exist in the separation and allocation of consideration in some multiple-deliverable arrangements. These differences may affect the timing or amount of revenue recognized for a deliverable.



# Amendments to the *FASB Accounting Standards Codification*<sup>TM</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–9. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

## Amendments to Subtopic 985-605

2. Amend paragraph 985-605-15-3, with a link to transition paragraph 985-605-65-1, as follows:

**985-605-15-3** The guidance in this Subtopic applies to the following transactions and activities:

- a. Licensing, selling, leasing, or otherwise marketing computer software.
- b. ~~Subparagraph superseded by Accounting Standards Update 2009-14. Leases of software that include property, plant, or equipment, if the software is more than incidental (see [e]) to the property, plant, or equipment as a whole. Any revenue attributable to the software, including postcontract customer support, shall be accounted for separately in conformity with the guidance in this Subtopic (see Subtopics 840-20 and 840-30 for guidance on revenue attributable to the property, plant, and equipment).~~
- c. The software and software-related elements of ~~Other~~ arrangements for ~~products or services~~ that include software that is ~~more than incidental~~ more-than-incidental to the products or services in the arrangement as a whole. Indicators ~~that of~~ that ~~software that is more than incidental to the products or services in an arrangement a product as a whole~~ include (but are not limited to):
  1. The software is a significant focus of the marketing effort or is sold separately.
  2. The vendor is providing **postcontract customer support**.
  3. The vendor incurs significant costs that are within the scope of Subtopic 985-20.

In such arrangements, the guidance in this Subtopic applies to the software and software-related elements in the arrangement unless a

~~scope exception in paragraph 985-605-15-4 is present. Software-related elements include software products and services such as those listed in paragraph 985-605-25-5 as well as any nonsoftware deliverable or deliverables for which a software deliverable is essential to their functionality. A service is within the scope of this Subtopic if software in the arrangement is essential to the functionality of that service. For example, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related. However, if the software is not essential to the functionality of the additional unrelated equipment, the equipment would not be considered software-related.~~

- d. More-than-insignificant discounts on future purchases that are offered by a vendor in a software arrangement. More-than-insignificant discounts have all of the following characteristics:
  1. Incremental to the range of discounts reflected in the pricing of the other elements of the arrangement
  2. Incremental to the range of discounts typically given in comparable transactions
  3. Significant.

If the discount or other concessions in an arrangement are more than insignificant, a presumption is created that an additional element or elements (as defined in paragraph 985-605-25-5) are being offered in the arrangement. Judgment is required when assessing whether an incremental discount is significant.

- e. Arrangements to deliver software or a software system, either alone or together with other products or ~~services~~services, that require significant production, modification, or customization of software (~~See~~ Subtopic ~~605-35~~605-35). Paragraphs 985-605-25-88 through 25-107 provide guidance on applying contract accounting to certain arrangements involving software. If a software arrangement includes services that meet the criteria discussed in paragraph 985-605-25-78, those services should be accounted for separately.

The guidance beginning in paragraph 985-605-55-119 addresses the scope application of this Subtopic to a **hosting arrangement**.

3. Amend paragraph 985-605-15-4, with a link to transition paragraph 985-605-65-1, as follows:

**985-605-15-4** The guidance in this Subtopic does not apply to the following transactions and activities:

- a. Arrangements for products or services containing software that is incidental to the products or services as a whole

- b. Leases of software that include a tangible product (such as property, plant, or ~~equipment~~equipment), if the software is incidental to the tangible product property, plant, or equipment—as a whole or the software and nonsoftware components of the tangible product function together to deliver the tangible product’s essential functionality
- c. Marketing and promotional activities not unique to software transactions, such as the following:
  - 1. Insignificant discounts on future purchases that are offered by a vendor in a software arrangement. For example, a vendor may offer a small discount (a coupon or other form of offer for 5 percent off) on additional licenses of the licensed product or other products that exist at the time of the offer but are not part of the arrangement.
  - 2. Discounts that are not incremental to discounts typically given in comparable transactions (for example, volume purchase discounts comparable to those generally provided in comparable transactions).
- d. Nonsoftware components of tangible products
- e. Software components of tangible products that are sold, licensed, or leased with tangible products when the software components and nonsoftware components of the tangible product function together to deliver the tangible product’s essential functionality
- f. Undelivered elements that relate to software that is essential to the tangible product’s functionality in (e).

4. Add paragraph 985-605-15-4A, with a link to transition paragraph 985-605-65-1, as follows:

**985-605-15-4A** In determining whether a tangible product is delivered with software components and nonsoftware components that function together to deliver the tangible product’s essential functionality, a vendor shall consider all of the following:

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

- e. The nonsoftware elements of the tangible product must substantively contribute to the tangible product's essential functionality. For example, the tangible product should not simply provide a mechanism to deliver the software to the customer.

5. Amend paragraph 985-605-25-10, with a link to transition paragraph 985-605-65-1, as follows:

**985-605-25-10** The following are exceptions to the guidance in the preceding paragraph:

- a. If the only undelivered element is postcontract customer support, the entire fee shall be recognized ratably (see paragraphs 985-605-25-66 through 25-75).
- b. If the only undelivered element is services that do not involve significant production, modification, or customization of software (for example, training or installation), the entire fee shall be recognized over the period during which the services are expected to be performed (see paragraphs 985-605-25-76 through 25-85).
- c. If the arrangement is in substance a subscription, the entire fee shall be recognized ratably (see paragraphs 985-605-25-58 through 25-59).
- d. If the fee is based on the number of copies, the arrangement shall be accounted for in conformity with paragraphs 985-605-25-52 through 25-57.
- e. There may be instances in which there is vendor-specific objective evidence of the fair values of all undelivered elements in an arrangement but vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement. In such instances, if both of the conditions in the following paragraph are met, the fee shall be recognized using the residual method as follows:
  - 1. The total fair value of the undelivered elements, as indicated by vendor-specific objective evidence, is deferred.
  - 2. The difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements.
- f. If an arrangement includes deliverables that are within the scope of this Subtopic (software deliverables) and deliverables that are not within the scope of this Subtopic (nonsoftware deliverables), a vendor shall allocate arrangement consideration to the nonsoftware deliverables, and to the software deliverables as a group, in accordance with paragraph 605-25-15-3A. The nonsoftware deliverables may include software deliverables that are considered essential to the functionality of a tangible product. If the arrangement includes more than one software deliverable, the portion of the arrangement consideration allocated to the software deliverables as a group in accordance with the guidance in paragraph 605-25-15-3A would be further subject to the separation and



allocation guidance of this Subtopic. If a tangible product contains software that is not essential to the product's functionality, that nonessential software and any other deliverables within the arrangement (other than the nonsoftware components of the tangible product) that relate to that nonessential software are within the scope of this Subtopic. If an undelivered element relates to a deliverable within the scope of this Subtopic and a deliverable excluded from the scope of this Subtopic, the undelivered element shall be bifurcated into a software deliverable and a nonsoftware deliverable. The software deliverable is within the scope of this Subtopic and the nonsoftware deliverable is not within the scope of this Subtopic.

6. Add paragraph 985-605-50-1, with no link to a transition paragraph, as follows:

**985-605-50-1** For multiple-element arrangements that include deliverables within the scope of this Subtopic and deliverables that are not within the scope of this Subtopic, a vendor shall provide the disclosures included in the pending content in paragraphs 605-25-50-1 through 50-2.

7. Add paragraphs 985-605-55-211 through 55-236 and their related headings, with a link to transition paragraph 985-605-65-1, as follows:

### **>> Example 13—Arrangements That Include Tangible Products and Software Elements**

**985-605-55-211** The following cases illustrate the guidance in paragraphs 985-605-15-3 through 15-4 and paragraph 985-605-25-10. The cases provide guidance for purposes of allocating arrangement consideration in a multiple-element revenue arrangement that includes a tangible product and software. The cases illustrate whether a product contains software elements and nonsoftware elements that function together to deliver the tangible product's essential functionality as discussed in paragraph 985-605-15-4. The cases are:

- a. Computer with operating system included (Case A)
- b. Computer with operating system excluded more than infrequently (Case B)
- c. Computer and multiple operating systems (Case C)
- d. Computer with additional software products included (Case D)
- e. Personal digital assistant (Case E)
- f. Computer with operating system sold separately (Case F)
- g. Computer and undelivered software elements (Case G)
- h. Standalone sale of an operating system (Case H)
- i. Computer with nonessential software and postcontract customer support included (Case I)
- j. Networking equipment (Case J)
- k. Similar products (Case K)

I. Change in business practice (Case L).

**> > > Case A: Computer with Operating System Included**

985-605-55-212 Vendor sells a personal computer that includes an operating system that, along with the hardware, provides the basic functionality of a personal computer including the ability to manage the computer and its hardware functions, the ability to manage and interact with a range of hardware peripherals, and the ability to communicate through a variety of types of computer networks. This arrangement has no undelivered elements. Vendor infrequently sells the personal computer without the operating system.

985-605-55-213 Because both the hardware and operating system are necessary to deliver the computer's essential functionality, the arrangement would be excluded from the scope of this Subtopic.

**> > > Case B: Computer with Operating System Excluded More Than Infrequently**

985-605-55-214 Consider the same fact pattern as in Case A, except that Vendor sells the personal computer both with and without the operating system more than infrequently.

985-605-55-215 Because Vendor sells the personal computer without an operating system more than infrequently, the operating system is not considered essential to the functionality of the personal computer. Therefore, the computer would be excluded from the scope of this Subtopic, and the operating system would be considered a separate deliverable that is within the scope of this Subtopic.

**> > > Case C: Computer and Multiple Operating Systems**

985-605-55-216 Consider the same fact pattern as in Case A, except that Vendor also sells the personal computer with a different operating system that provides essentially the same functionality as the operating system in Case A.

985-605-55-217 Vendor infrequently sells the personal computer without an operating system, which indicates that an operating system is essential to the functionality of Vendor's personal computer. All deliverables would be excluded from the scope of this Subtopic.

**> > > Case D: Computer with Additional Software Products Included**

985-605-55-218 Consider the same fact pattern as in Case A, except that Vendor also includes a productivity software bundle with the personal computer that allows users to create, edit, and use documents, spreadsheets, and presentations. Vendor frequently sells the same computer both with and without

the productivity software. When the productivity software is included with the software, the functionality of the productivity software is prominently displayed in the marketing materials and specifications of the computer. The productivity software is also sold separately.

**985-605-55-219** The productivity software would not be considered necessary for the computer to provide its essential functionality. While the operating system is essential to deliver the personal computer's basic functionality, the productivity software is not. This is demonstrated by the fact that the computer is frequently sold both with and without the productivity software. The computer and operating system would be considered one deliverable that is excluded from the scope of this Subtopic. The productivity software would remain within the scope of this Subtopic.

### **>>> Case E: Personal Digital Assistant**

**985-605-55-220** Vendor sells a personal digital assistant. The personal digital assistant provides several functions, such as phone, camera, and computing functionality, that allow the user to access and use various software programs, such as a music player and games. The personal digital assistant contains an operating system that allows the customer to access the functionality of the device, including the ability to utilize software that is necessary to provide the phone, camera, and other functionality. The phone and camera software are frequently included on the personal digital assistant, but the music player and game software are excluded more than infrequently. The phone, camera, and music player software are not sold separately, but the game software is sold separately.

**985-605-55-221** The personal digital assistant hardware, operating system, phone, and camera software are essential to the functionality of the personal digital assistant and would be considered one deliverable that is outside the scope of this Subtopic. The music player and game software would be considered software deliverables within the scope of this Subtopic because the product also is sold more than infrequently without this software. Whether the software is sold separately does not affect the conclusion in this example.

### **>>> Case F: Computer with Operating System Sold Separately**

**985-605-55-222** Vendor sells a personal computer that includes an operating system that, along with the hardware, provides the basic functionality of a personal computer, including the ability to manage the computer and its hardware functions, the ability to manage and interact with a range of hardware peripherals, and the ability to communicate through a variety of types of computer networks. The arrangement has no undelivered elements. Vendor never sells the personal computer without the operating system but does sell the operating system for the personal computer separately. The personal computer

hardware cannot function without an operating system, and the operating system does not function without the computer hardware.

985-605-55-223 Vendor determines that the operating system is necessary to deliver the computer's essential functionality as evidenced by the fact that the vendor does not sell the computer without the operating system. Accordingly, the computer and operating system would be considered one deliverable that is excluded from the scope of this Subtopic. Whether the software is sold separately in a different transaction does not affect the conclusion in this example. The critical assessment is whether the computer and the operating system in one transaction are both necessary to provide the computer's essential functionality. See paragraph 985-605-55-227 for an illustration of how Vendor would account for the separate sale of the operating system without the computer.

#### **> > Case G: Computer and Undelivered Software Elements**

985-605-55-224 Consider the same fact pattern as in Case A, except that Vendor also provides a specified upgrade right for the next version of its operating system along with postcontract customer support, including information about available upgrades of the operating system.

985-605-55-225 Because the computer and operating system are determined to be a single nonsoftware deliverable that is excluded from the scope of this Subtopic, all deliverables related to that nonsoftware deliverable are also considered nonsoftware deliverables and excluded from the scope of this Subtopic. Accordingly, the postcontract customer support and specified upgrade right for the operating system would be nonsoftware deliverables excluded from the scope of this Subtopic.

#### **> > Case H: Standalone Sale of an Operating System**

985-605-55-226 Vendor releases a new upgraded version of its computer operating system. Vendor sells the upgraded operating system in a standalone transaction to a customer that had previously purchased a computer that contained a prior version of Vendor's operating system. Vendor now includes the upgraded operating system on all of its computers. When sold with the personal computer, the operating system is combined with the personal computer as a single nonsoftware deliverable that is excluded from the scope of this Subtopic.

985-605-55-227 The separate sale of the operating system would be within the scope of this Subtopic. Even though this software would be considered a nonsoftware deliverable if it were sold with the computer, this Subtopic only provides a scope exception for the operating system when it is part of an arrangement that includes the sale of a tangible product.

**>>> Case I: Computer with Nonessential Software and Postcontract Customer Support Included**

**985-605-55-228** Consider the same fact pattern as in Case D, except that Vendor also provides postcontract customer support for both the computer (including the operating system) and productivity software.

**985-605-55-229** The combined computer and operating system product is considered to be a single nonsoftware deliverable, and the productivity software is considered to be a software deliverable consistent with Case D. Because the postcontract customer support relates to deliverables within the scope of this Subtopic and deliverables outside the scope of this Subtopic, it must be bifurcated into software and nonsoftware related components. Postcontract customer support relating to the productivity software would be a deliverable within the scope of this Subtopic. Postcontract customer support relating to the computer (including the operating system) would be a nonsoftware deliverable that is outside the scope of this Subtopic.

**>>> Case J: Networking Equipment**

**985-605-55-230** Vendor sells networking equipment that provides its energy company customers with the ability to remotely monitor and manage their customers' energy use. Vendor sells an integrated package of equipment and software that consists of a monitoring device that is placed at the energy company's customer location to collect data that it then relays back to the energy company's remote location and software that allows the energy company to analyze the data and interface with its billing system. The software is installed on the energy company's computer system, which is not purchased from Vendor. The equipment does not have functionality without the software, and the software does not have functionality without the equipment. Vendor's customers will initially purchase all of these components together; however, they also can separately purchase replacement or expansion equipment or updated versions of the software at a subsequent time.

**985-605-55-231** The equipment and software would all be considered nonsoftware elements outside the scope of this Subtopic. The monitoring and relay equipment work together with the software (though not as a physically combined unit) to deliver the product's essential functionality and allow the energy company to access and analyze its customers' usage data. Vendor cannot access the functionality of the equipment without the software. Although Vendor does sell the equipment separately without the software, it only does so in replacement situations or as the customer base of the energy company expands. The customer would have needed to previously acquire the software for the replacement equipment to function.

### **>>> Case K: Similar Products**

985-605-55-232 Vendor sells two models of personal digital assistant devices—Model 100 and Model 200. Model 100 (including the software delivered on Model 100) is considered to be a nonsoftware deliverable excluded from the scope of this Subtopic when applying this Subtopic. The difference between the two models is that Vendor infrequently sells the Model 200 without music player software. The music player software is not included on Model 100, but customers can separately purchase the software for use on Model 100. There is no substantive difference in the other hardware or software components of the two models.

985-605-55-233 Vendor would need to assess whether the two models are the same product or different products. If they are the same product, then the music player software would not be considered essential to the functionality of Model 200. Because there is no substantive difference between the two models other than the inclusion of the music player software, Vendor determines that the two models are the same product. When Vendor sells Model 200, it considers the music player software to be a software deliverable within the scope of this Subtopic when allocating the arrangement consideration.

### **>>> Case L: Change in Business Practice**

985-605-55-234 Vendor sells engineering software that it always sells with postcontract customer support. Vendor does not have vendor-specific objective evidence for postcontract customer support and applies this Subtopic when accounting for the arrangement, which results in the software and postcontract customer support being combined into one unit of accounting. The software can be used on various computer systems. As a result of technological developments, Vendor changes its business model such that its software is now included on an integrated workstation device. The device offers several advanced features including voice command and touch-screen design capabilities. Vendor does not sell the workstation device without the engineering software, and the software is not sold separately from the device because the workstation is needed for the software to function. Vendor continues to sell the previous version of its engineering software separately, but its market strategy is to transition customers to its new advanced technology.

985-605-55-235 Vendor determined that the hardware components of the workstation device along with the engineering software are necessary to provide the product's essential functionality. Both the device and the postcontract customer support relating to the engineering software are now considered nonsoftware deliverables and are excluded from the scope of this Subtopic.

985-605-55-236 When a vendor's business model changes, judgment will be necessary to determine whether the software provided with a tangible product is

essential to the product's functionality. For example, if the device does not provide substantive functionality beyond that provided by the software, the software would likely not be essential to the functionality of the device. In that case, the software and postcontract customer support would continue to be included within the scope of this Subtopic.

8. Add paragraph 985-605-65-1 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements**

**985-605-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*:

- a. The pending content that links to this paragraph shall be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, unless the vendor elects to adopt the pending content on a retrospective basis in accordance with paragraph 985-605-65-1(d).
- b. Earlier application is permitted.
  1. If a vendor elects earlier application and the period of adoption is not the first reporting period in the vendor's fiscal year, the pending content that links to this paragraph shall be applied through retrospective application from the beginning of the vendor's fiscal year.
  2. If earlier application is elected in a period other than the first reporting period in the vendor's fiscal year, the vendor shall disclose at a minimum the following information for all previously reported interim periods in the year of adoption: revenue, income before income taxes, net income, earnings per share, and the effect of the change for the appropriate captions presented.
- c. If a vendor elects to apply the pending content that links to this paragraph on a prospective basis, the vendor shall provide the disclosures included in paragraph 605-25-65-1(c) through (d).
- d. A vendor may elect, but is not required, to adopt the pending content that links to this paragraph through retrospective application applying the guidance in paragraphs 250-10-45-5 through 45-10. If a vendor elects retrospective application, the disclosures in paragraphs 250-10-50-1 through 50-3 shall be provided.
- e. A vendor must adopt the pending content that links to this paragraph in the same period and use the same transition method that it uses to adopt the pending content that links to paragraph 605-25-65-1.

9. Amend paragraph 985-605-00-1 as follows:

**985-605-00-1** ~~No~~ The following table identifies the changes updates have been made to this ~~subtopic~~. Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
985-605-15-3	Amended	2009-14	10/07/2009
985-605-15-4	Amended	2009-14	10/07/2009
985-605-15-4A	Added	2009-14	10/07/2009
985-605-25-10	Amended	2009-14	10/07/2009
985-605-50-1	Added	2009-14	10/07/2009
985-605-55-211 through 236	Added	2009-14	10/07/2009
985-605-65-1	Added	2009-14	10/07/2009



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

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

## Amendments to the XBRL Taxonomy

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There are no proposed additions to the XBRL taxonomy as a result of the amendments in this Update.