FASB Emerging Issues Task Force

Issue No. 09-2

Title: Research and Development Assets Acquired and Contingent Consideration Issued In an Asset Acquisition

Document: Issue Summary No. 1, Issue Supplement No. 2*

Date prepared: October 27, 2009

FASB Staff: Farber (x282)/Anderson (x266)

EITF Liaison: Jan Hauser

Date previously discussed: March 19, 2009; June 18, 2009; September 9-10, 2009


References:
FASB Accounting Standards Codification Topic 323, *Investments—Equity Method and Joint Ventures* (Topic 323)
FASB Accounting Standards Codification Topic 340, *Deferred Costs and Other Assets* (Topic 340)
FASB Accounting Standards Codification Topic 350, *Intangibles—Goodwill and Other* (Topic 350)
FASB Accounting Standards Codification Topic 360, *Property, Plant, and Equipment* (Topic 360)
FASB Accounting Standards Codification Topic 605, *Revenue Recognition* (Topic 605)
FASB Accounting Standards Codification Topic 730, *Research and Development* (Topic 730)
FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging* (Topic 815)

*The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.*
FASB Accounting Standards Codification Topic 985, *Software* (Topic 985)

FASB Statement No. 2, *Accounting for Research and Development Costs* (now under Topic 730) (Statement 2)

FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* (now under Topic 985) (Statement 86)

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (now under Topic 815) (Statement 133)

FASB Statement No. 141 (revised 2007), *Business Combinations* (now under Topic 805) (Statement 141R)

FASB Statement No. 142, *Goodwill and Other Intangible Assets* (now under Topic 350) (Statement 142)

FASB Statement No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets* (now under Topic 360) (Statement 144)

FASB Interpretation No. 6, *Applicability of FASB Statement No. 2 to Computer Software* (now under Topic 730) (Interpretation 6)


AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (now under Topic 350) (SOP 98-1)


International Accounting Standard 38, *Intangible Assets* (IAS 38)


EITF Issue No. 96-6, "Accounting for the Film and Software Costs Associated with Developing Entertainment and Educational Software Products" (now under Topic 985) (Issue 96-6)

EITF Issue No. 99-5, "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements" (now under Topic 340) (Issue 99-5)

EITF Issue No. 00-2, "Accounting for Web Site Development Costs" (now under Topic 350) (Issue 00-2)

EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" (now under Topic 730) (Issue 07-3)
EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" (now under Topic 323) (Issue 08-6)
**Background**

1. At the September 9–10, 2009 EITF meeting, the Task Force reached a consensus-for-exposure on this Issue and directed the FASB staff to issue a proposed Accounting Standards Update (proposed Update) for public comment.

2. A proposed Update was posted to the FASB website on September 30, 2009, with a comment period that ended October 26, 2009. Comment letters received on the proposed Update have previously been distributed to Task Force members and are analyzed below. At the November 19, 2009 EITF meeting, the Task Force will have the opportunity to consider those comment letters as it redeliberates the consensus-for-exposure.

3. Constituents were specifically requested to provide comments on the following questions:

   1. Do you agree that the cost of acquired tangible and intangible research and development assets acquired in an asset acquisition should be capitalized, regardless of whether they have a future alternative use? Why or why not?

   2. Do you agree that contingent payment arrangements in an asset acquisition should not be recognized at fair value unless those arrangements are derivatives?

   3. This proposed Update does not provide guidance for determining whether a contingent payment relates to future services or consideration for the asset acquired. Paragraph 805-10-55-25 provides guidance for determining whether payments made to the seller in a business combination after the acquisition date relate to the acquisition of the business or the performance of future services by the seller. Do you believe that additional guidance is necessary for assisting in making this determination in an asset acquisition? If you believe additional guidance is necessary, please provide any factors that you believe should be considered in making this determination.

**Summary of Comment Letters**

4. The 10 comment letters received on the proposed Update are summarized below.
Respondent Profile

<table>
<thead>
<tr>
<th>Type of Respondent</th>
<th>Number of Letters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparers</td>
<td>6</td>
</tr>
<tr>
<td>Industry Organizations</td>
<td>0</td>
</tr>
<tr>
<td>Accounting Firms/Organizations</td>
<td>4</td>
</tr>
<tr>
<td>Users</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Number of Letters</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

Four of the comment letters received from preparers were from companies that are in the pharmaceutical industry.

5. The staff has identified and analyzed the more significant comments in the section that follows. While the staff believes that the majority of the issues raised by those comments were already considered by the Task Force during its initial deliberation of this Issue, the staff recommends that the Task Force reconsider those issues as it redeliberates the consensus-for-exposure. Some responses included comments that were editorial in nature. Appendix 09-02A includes revised amendments to the FASB Financial Accounting Codification™ (the Codification) to reflect those changes that the staff believes are warranted.

Comment – Capitalization of assets acquired in an asset acquisition

6. Most respondents did not support the consensus-for-exposure overall. In general, respondents believe that the guidance in the proposed Update would not achieve its objective of aligning the accounting for research and development assets acquired in an asset acquisition with those acquired in a business combination. The comment letters focused on the fact that research and development assets acquired in a business combination are measured at their acquisition date fair value, while research and development assets acquired in an asset acquisition will be measured at their allocated cost. In addition, transaction costs related to research and development assets acquired in an asset acquisition will be included as part of the initial allocated cost of the asset. Respondents were also concerned that the proposed Update would result in inconsistencies between research and development assets acquired in an asset
acquisition and those that are internally generated; although they acknowledged that this inconsistency does exist currently when research and development assets are acquired in a business combination. Those respondents believe that a comprehensive project covering all research and development activities (or possibly all intangible assets) should be added to the FASB's agenda if that issue is to be addressed. The following comments from a preparer are illustrative of these concerns:

This essentially introduces a third model for R&D projects: those developed internally have costs expensed as incurred; those acquired in a business combination are capitalized at estimated fair value as of the acquisition date; and those acquired in an asset acquisition are capitalized at allocated cost subsequently adjusted for contingent consideration that is resolved, which will differ significantly from fair value. In summary, as opposed to resolving an inconsistency, it appears that the proposed rule change would actually create a third model for accounting for R&D assets in development that differs from both SFAS 2 and SFAS 141R. We have concerns about whether this really represents an improvement in the accounting in this area.

We have significant concerns with accounting governing bodies reviewing the accounting for R&D activities on a piecemeal basis. We believe that if this issue is going to be addressed, the appropriate accounting authoritative body, which we believe is the FASB, should reconsider all R&D accounting in conjunction with a full review of FAS 2 (CL#8).

7. The following comment from an accounting firm further illustrates this point:

As a practical matter, the application of U.S. GAAP for R&D activities is well understood, with little demand for additional interpretive standard-setting. If meaningful improvements can be made to the accounting for R&D activities, we believe all such activities should be treated similarly. In contrast, a piecemeal approach that only exchanges old inconsistencies for new ones seems to offer little, if any, net improvements to financial reporting. (CL #2)

8. The majority of the pharmaceutical company respondents also believe that capitalizing payments made to acquire research and development assets is inappropriate for the pharmaceutical industry, based on the expectation that research and development assets acquired in the early phases of their development life cycle have a low probability of achieving
commercialization according to current industry averages. Accordingly, these respondents believe that recording an asset where there is an expectation that the asset will be impaired and written off will be misleading to investors. The following comment from a preparer is representative of such comments received:

In the pharmaceutical industry, given the significant technological and regulatory risks associated with developing a drug and bringing it to market, most drug candidates acquired in an asset acquisition will have a very low probability of success and would not meet the definition of an asset under FASB Concept Statement No. 6: "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." (CL#7)

In addition, some pharmaceutical company respondents noted that research and development assets are often acquired for a relatively small up-front fee, with provisions for significant contingent payments if the research and development is successful. Accordingly, these respondents believe that assets acquired in an asset acquisition would initially be recorded at an amount significantly less than the fair value of similar assets recorded in a business combination.

9. Two respondents, both preparers (CL's #1, and #3), were supportive of the Task Force issuing the guidance in the proposed Update. Those respondents believe that acquired research and development assets should be capitalized regardless of whether they are acquired in an asset acquisition or a business combination.

Comment – International convergence

10. Several respondents provided comments relating to international convergence. Those respondents noted that even if the proposed Update is finalized, there will still be differences between IFRS and U.S. GAAP. Those respondents questioned the benefits of revising existing U.S. GAAP on a piecemeal basis when convergence would still not be achieved and could possibly create additional differences. The following comment from an accounting firm illustrates these concerns:

With respect to convergence, the ED states that its "proposed amendments will more closely align U.S. GAAP with IFRS, as research and development assets acquired in an asset acquisition are generally capitalized under IFRS." It appears
the assertion that IPR&D costs are generally capitalized under IFRS is due, at least in part, to the guidance in paragraph 25 of IAS 38 for assessing probability. Without similar, unequivocal language in U.S. GAAP it remains to be seen whether practice will converge on this point. In addition, the accounting for internally-generated R&D costs will continue to differ between U.S. GAAP and IFRS, since IAS 38 requires the capitalization of development costs if specified criteria are met.

We believe a better approach would be to undertake a broad project to reconsider the accounting for all research and development activities, if the Board believes it would be an appropriate use of its resources to do so. This might be conducted as a joint project with the IASB, which could address differences in the language between the two sets of literature where the standards-setters share the same intent, as well as where the Board's intent differs. (CL #2)

Comment – Scope of the Proposed Update

11. The proposed Update would require capitalization of acquired intangible assets as well as tangible assets acquired or constructed for use in research in development. One respondent raised a concern that they had thought that the focus of this Issue was on acquired intangible research and development assets and questioned whether capitalization would also apply to tangible assets acquired or constructed for use in research in development.

We also have concerns that the proposal as written in the ED will actually have broader implications than we originally anticipated and that this could raise operational difficulties. We originally understood this project to be focused on requiring those in our industry to capitalize R&D projects purchased in an asset acquisition. As we reviewed the markups of the proposed changes to the accounting standards, we became concerned that the proposal would also lead to changes to our accounting for tangible assets consumed in the R&D process. For example, we may purchase materials for use in clinical trials… that have no alternative future use. Under the proposal, we are concerned that we would be required to initially capitalize these and similar assets. This would cause operational issues for us as we would need to inventory these items, track them, and expense them at the time they are consumed in the R&D process. We question whether this is an improvement in financial reporting, and even if there is an argument that this is an improvement, we question whether it is worth the administrative effort.

We also don't understand why the word "constructed" is proposed to be removed from the amended Subtopic 730-10. Our understanding is that this EITF Issue is intended to focus on assets acquired in an asset acquisition and not those constructed by companies. It seems that removing the word constructed is
unnecessary and could raise questions as to whether there was intent to change the accounting for constructed assets in addition to assets acquired. (CL #8)

12. The proposed Update also amends the accounting guidance for software that is developed to be sold, leased, or marketed. Under the proposed Update, any tangible or intangible assets acquired that are used in the development of software to be sold, leased, or marketed would be capitalized regardless of whether technological feasibility has been reached. The proposed Update did not amend the accounting guidance for software that is being developed for an entity's internal use. Although those changes were reflected in the proposed Update, no comments were received related to them.

**Staff Discussion with Analysts**

13. The staff also received feedback from four sell-side analysts that focus on the pharmaceutical industry. The feedback received from the four analysts was generally consistent. The analysts noted that they focus on the total level of research and development activities, and do not differentiate between amounts related to purchasing research and development assets and amounts spent on internally developed research and development. The analysts commented that they are most concerned with the status of the research and development projects, and the expectation of whether the product will reach commercialization. Detailed information related to product pipelines and the product's stage of development is generally provided to the analysts at least annually by the company that owns the product, either in publicly filed documents or public presentations. A company will generally provide updates on the status of late stage research and development projects when a significant development occurs (for example, filing for approval and failed clinical trials). The analysts informed the staff that when they evaluate an entity's performance under the current guidance, they typically add back the research and development charge to earnings. That feedback is similar to the feedback that a preparer (CL#8) indicated they had also received from users of their financial statements.

**Staff Analysis**

14. The staff believes that the concerns expressed in the comment letters were previously discussed by the FASB in its deliberations prior to the issuance of Statement 141(R). Specifically, with regards to acquired research and development assets not meeting the definition
of an asset in Concepts Statement 6, the FASB concluded when deliberating Statement 141(R) that in-process research and development acquired in a business combination generally will satisfy the definition of an asset because the observable exchange at the acquisition date provides evidence that the parties to the exchange expect future economic benefits to result from that research and development. Uncertainty about the outcome of an individual project is reflected in measuring its fair value. That is consistent with the guidance in paragraph 25 of IAS 38, which states:

Normally, the price an entity pays to acquire separately an intangible asset reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the effect of probability is reflected in the cost of the asset. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets. (Emphasis added.)

15. The staff also believes that the inconsistencies highlighted by the respondents between the accounting treatment for acquired research and development assets acquired in an asset combination and the accounting treatment for a business combination or internally developed assets, are not unique to research and development activities. If the proposed Update were finalized, it would result in the accounting treatment for research and development assets acquired in an asset acquisition being consistent with the accounting treatment for other intangible assets acquired. Specifically, an intangible asset acquired in an asset acquisition is required to be recognized in accordance with paragraphs 350-30-25-1 through 25-2:

An intangible asset that is acquired either individually or with a group of other assets shall be recognized.

The cost of a group of assets acquired in a transaction other than a business combination shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to goodwill.

16. With respect to IFRS convergence, the proposed Update indicates that the guidance in the proposed Update will more closely align the accounting for research and development assets acquired in an asset acquisition. The staff believes that this statement is accurate with respect to
the accounting for initial payments made in an asset acquisition because of the IFRS guidance stated in paragraph 14 above.

17. The accounting for contingent payments is less clear, however, under IFRS, and the proposed Update may result in accounting differences. Except for derivative arrangements, the proposed Update requires that contingent consideration payments made subsequent to the acquisition date be capitalized as part of the previously acquired intangible asset. Therefore, the only criteria to be met for capitalization under the proposed Update is that the subsequent payment is deemed to be contingent consideration and not a payment for services provided by the seller. It is not clear under IFRS whether certain contingent payments (for example, development milestones) would be considered contingent consideration for the asset or payments related to development costs. If the payment was considered to be contingent consideration, the staff believes that similar accounting may occur under IFRS as does under the proposed Update.

18. Finally, with respect to the scope of the proposed Update, the staff believes that the intent of the Task Force was to remove the concept of a research and development asset having "alternative future use" in order for it to qualify for capitalization. The staff believes that this concept would apply to both tangible and intangible assets, which is why the revisions were made in the applicable amendments to the Codification. That decision had the implication of also impacting the accounting for costs incurred in U.S. GAAP guidance that relied on the criteria for capitalization for research and development, such as costs of software to be sold, leased, or otherwise marketed, and certain web site development costs.

19. However, the staff agrees with the respondent that the focus of this Issue had primarily been on acquired intangible assets and there was not much Task Force discussion relating to acquired or constructed tangible assets to be used in research and development or discussion relating to the other GAAP guidance that was affected by the Codification amendments. Accordingly, the staff intends to ask the Task Force to affirm the scope of the proposed Update.
Issue 1, Question 1 – Does the Task Force want to affirm its consensus-for-exposure that the cost of intangible research and development assets acquired in an asset acquisition should be capitalized, regardless of whether they have a future alternative use?

Issue 1, Question 2 – Does the Task Force want to affirm its consensus-for-exposure that the cost of acquired or constructed tangible assets to be used in research and development activities should be capitalized, regardless of whether they have a future alternative use?

Issue 1, Question 3 – Does the Task Force agree that the scope of this Issue would also affect the guidance for accounting for assets that are acquired for use in the development of software to be sold, leased, or marketed, and web site development costs?

Comment – Contingent consideration

20. The majority of the respondents agreed with the proposed Update that contingent consideration should not be recorded at its acquisition date fair value. Only two of the respondents (CL#1 and CL#6) believe that contingent consideration in an asset acquisition should be treated in a similar manner to contingent consideration in a business combination and recorded at its acquisition date fair value. One respondent (CL #6) noted that not recording contingent consideration as of the date of the transaction would not reflect the economics of the transaction. That respondent proposed that contingent consideration be accounted for in the same manner a business combination is accounted for, except that if the contingency is resolved at an amount that is less than the original estimate, then the difference between the original amount and the lesser amount would reduce the value of the asset.

21. The following comment from a preparer is representative of the respondents who support the treatment for contingent consideration in the proposed Update:

We believe that following the SFAS 5 model results in an accounting model that better agrees with the substance of the transaction from a business standpoint. Acquirers are often unwilling to pay the entire fair value of the asset up-front because of the risks and uncertainties and, therefore, the parties often agree to a relatively small amount to be paid up-front with a significant amount of contingent consideration. If the asset ultimately proves that it has greater value,
more consideration will be paid. We agree with the assumption in the asset acquisition model that amounts paid to acquire the asset should be considered part of the cost of the asset regardless of whether the amount was paid up-front or as part of the contingent consideration. (CL#8)

22. Although many respondents noted that it may be difficult to determine whether a contingent payment relates to the acquisition of an asset, to the rendering of services under a collaborative development arrangement, or to the offset of other costs (for example, research and development or marketing costs) that are to be incurred by the seller under the terms of the arrangement, the respondents generally believe that the existing guidance in paragraph 805-10-55-25 provides a reasonable framework on which to assess whether payments relate to the purchase of an asset or to the rendering of subsequent services. One of the respondents (CL #6) believes that additional guidance should be provided about whether payments can be allocated between future services and the acquisition of an asset.

23. An informal comment was also received on the accounting for sales-based royalty payments and whether such payments would be considered contingent consideration. The commenter was concerned with when royalty expense would be recognized under the proposed Update in an asset acquisition if royalties are considered to be contingent consideration. For example, assume that an entity acquires an IPR&D asset and agrees to make royalty payments of 2 percent of all future sales of any commercialized product that uses the acquired technology. Under current GAAP, those royalty payments are generally recognized as an expense in the period in which the royalty payment is triggered (that is, when the related product sales occur). Under the proposed model, if those royalty payments are considered to be contingent consideration, they would be capitalized as part of the cost of the acquired technology when it is probable and estimable that the liability for that payment has been incurred, resulting in a potential mismatch between when the payment is made and the expense recognized in the period. The staff understands that there is currently diversity in practice on whether and when a royalty payment is considered to be contingent consideration in a business combination and that same diversity would likely exist in an asset acquisition.
24. The staff believes that the allocation of the payments should be made using professional judgment, focusing on the economics and underlying contractual terms of an agreement. Given that responses were generally consistent with that notion, the staff recommends that the Task Force not provide additional guidance for making that assessment.

**Issue 2, Question 1 – Does the Task Force want to affirm its consensus-for-exposure for contingent payment arrangements in an asset acquisition?**

**Issue 2, Question 2 – Does the Task Force agree with the staff's recommendation not to provide any additional guidance for determining whether a contingent payment relates to future services or consideration for the asset acquired?**

**Transition Method and Effective Date**

25. The amendments in the proposed Update would be effective for acquisitions of assets occurring in fiscal years beginning on or after December 15, 2009. The amendments would be applied on a prospective basis to all acquisitions of assets occurring after the effective date. Early application would not be permitted. Only one respondent, a preparer (CL#3) commented on the transition provisions and noted that the provisions are appropriate based on the prospective treatment for all acquisitions occurring in fiscal years beginning on or after December 15, 2009.

26. The staff received an informal comment that this transition period may not be sufficient for entities to put into place systems and controls to track acquired research and development assets and test those assets for impairment. This may be particularly true for entities that do not acquire businesses regularly and have not yet had to apply the provisions in the new business combination guidance. This may also be the case if the Task Force agrees that tangible assets that are acquired for use in a research and development project should be capitalized regardless of whether they have alternative future use.

27. The staff notes that if the Task Force reaches a consensus on this Issue at the November 19, 2009 meeting, a final standard would likely not be issued until mid-December 2009. Given this
feedback and the short proximity to year-end, the staff recommends that the Task Force consider extending the effective date of any final guidance to fiscal years beginning on or after December 15, 2010, to provide sufficient time for entities to establish the appropriate systems and controls and to communicate the changes throughout their organizations.

Question 3 – Does the Task Force agree with the staff's recommendation that this Issue should be effective for assets acquired in fiscal years beginning on or after December 15, 2010?
Appendix 0902A

CHANGES TO THE PROPOSED UPDATE
(in tracked changes to show recommendations)

New instruction to be inserted under Amendments to Topic 350 currently at paragraph 21.

Amend paragraph 350-30-25-5, with a link to transition paragraph 730-10-65-1 as follows: **350-30-25-5 A defensive intangible asset**, other than an intangible asset that is used in research and development activities, shall be accounted for as a separate unit of accounting. Such a defensive intangible asset shall not be included as part of the cost of an entity’s existing intangible asset(s). For implementation guidance on determining whether an intangible asset is a defensive intangible asset, see paragraph 350-30-55-1. For guidance on intangible assets acquired in a business combination that are used in research and development activities (regardless of whether they have an alternative future use), see paragraph 350-30-35-17A. For guidance on intangibles that are purchased from others in an asset acquisition for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise), see Subtopic 730-10.

2. Amend paragraphs 730-10-05-2 through 05-3, with a link to transition paragraph 730-10-65-1, as follows:

**730-10-05-2** At the time most research and development costs are incurred, the future benefits are at best uncertain. In other words, there is no indication that an economic resource has been created. Moreover, even if at some point in the progress of an individual research and development project the expectation of future benefits becomes sufficiently high to indicate that an economic resource has been created, the question remains whether that resource should be recognized as an asset for financial accounting purposes. Although future benefits from a particular research and development project may be foreseen, they generally cannot be measured with a reasonable degree of certainty. There is normally little, if any, direct relationship between the amount of current research and development expenditures and the amount of resultant future benefits to the entity. Research and development costs therefore fail to satisfy the suggested measurability test for accounting recognition as an asset. At the time most research and development costs are incurred, the future benefits are at best uncertain. In other words, there is no indication that an economic resource has been created. Moreover, even if at some point in the progress of an individual research and development project the expectation of future benefits becomes sufficiently high to indicate that an economic resource has been created, the question remains whether that resource should be recognized as an asset for financial accounting purposes. Although future benefits from a particular research and development project may be foreseen, they generally cannot be measured with a reasonable degree of certainty. Research and development costs therefore fail to satisfy the suggested measurability test for accounting recognition as an asset.

**730-10-05-3** Also, there is often a high degree of uncertainty about whether research and development expenditures will provide any future benefits. Thus, even an indirect cause and effect relationship can seldom be demonstrated. Because there is generally no direct or even indirect basis for relating costs to revenues, the principles of associating cause and effect and systematic and rational allocation cannot be applied to recognize research and development costs as expenses. That is, the notion of matching, when used to refer to the process of recognizing costs as expenses on any sort of cause and effect basis, cannot be applied to research and development costs. The general lack of discernible future benefits at the time the costs are incurred indicates that the immediate recognition principle of expense recognition should apply. Research and development assets acquired in an asset acquisition generally will satisfy the recognition criteria as an asset because the observable exchange at the acquisition date provides evidence that the parties to the exchange expect future economic benefits to result from that research and development.

26. Amend paragraph 350-50-25-6, with a link to transition paragraph 730-10-65-1, as follows:

**350-50-25-6** Costs incurred to purchase software tools, or costs incurred during the application development stage for internally developed software tools, shall be capitalized unless they are used in research and development. Costs capitalized unless they are used in research and development, and meet either of the following conditions:

a. Subparagraph superseded by Accounting Standards Update 2009-XX They do not have any alternative future uses.
b. Subparagraph superseded by Accounting Standards Update 2009-XX. They are internally developed and represent a pilot project or are being used in a specific research and development project (see paragraph 350.40.15.7).

14. Amend paragraph 985-20-25-1, with a link to transition paragraph 730-10-65-1, as follows:

985-20-25-1 All costs incurred to establish the technological feasibility of a computer software product to be sold, leased, or otherwise marketed are research and development costs. Those costs shall be accounted for in accordance with Subtopic 730-10. Accordingly, tangible and intangible assets acquired in an asset acquisition that will be used in the development of a computer software product to be sold, leased, or otherwise marketed are recognized and measured in accordance with Topic 730 even if technological feasibility has not been established.

17. Amend paragraph 985-20-55-13, with a link to transition paragraph 730-10-65-1, as follows:

985-20-55-13 An entity may purchase software that will be integrated into another software or hardware product. The cost of such purchased software shall be capitalized when the software is acquired, regardless of whether technological feasibility is established at the time of purchase. Assuming that purchased computer software has no alternative future use, its costs can be capitalized only if the technological feasibility of the product to be ultimately marketed has been established at the time of purchase. Such factors as the timing of receipt or the status of hardware and internal software development may be crucial in determining whether technological feasibility is established at the time of purchase.

13. Add paragraph 805-50-50-5, with a link to transition paragraph 730-10-65-1, as follows:

Acquisition of Assets Rather Than a Business

805-50-50-5 For asset acquisitions that include a contingent consideration arrangement, in addition to the disclosures required by other specific guidance, for example, Topic 815; Topic 450; or Subtopic 323-10, disclose how the contingent consideration will be accounted for when the contingency is resolved and the consideration is paid or becomes payable.