



Project	Leases
Topic	Accounting for Arrangements with Service and Lease Components

Purpose

1. The purpose of this paper is to determine how to account for arrangements that contain both service components and lease components. The definition of a lease is not discussed in this paper.
2. This paper is structured as follows:
 - (a) Background Information
 - (b) Should an Arrangement That Contains Both Service and Lease Components Be Evaluated for Bifurcation?
 - (c) How Should the Lessor Bifurcate the Lease and Service Components?
 - (d) How Should the Lessee Bifurcate the Lease and Service Components?
 - (e) What If the Arrangement Price Cannot Be Allocated Among the Components?
 - (f) Accounting for Subsequent Changes in an Arrangement's Consideration.
 - (g) Transition Considerations.
 - (h) Appendix–Illustrative Examples.
3. In this paper, the staff recommends the following:

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- (a) If an arrangement contains both service components and lease components, the entity should evaluate if it should account for the service components and the lease components separately.
- (b) A lessee would be subject to the same requirements as a lessor regarding the identification of separate performance obligations within an arrangement. If the service component in an arrangement is not considered distinct, it is accounted for as part of the lease. If the service component is considered distinct, total payments under the arrangement should be allocated between the service and lease components using the same principles as those proposed in the pending Exposure Draft on revenue recognition.
- (c) If the lessor or lessee is unable determine the allocation between service and lease components, the entire arrangement should be considered and accounted for as a lease.
- (d) If the total payments under an arrangement that contains both lease and service components change subsequent to the arrangement's inception, an entity should allocate the change on a pro rata basis to the various contract components in the same proportion as determined at contract inception.
- (e) An entity should be required to allocate the total payments under all existing arrangements between service and lease elements, and the lease elements would be accounted for in accordance with the transition requirements proposed in February 2010 IASB Agenda Paper 10D/FASB Memo 69 for lessees.

Background Information

4. Many arrangements contain components that can be described as either service components or lease components. Some of these arrangements may be primarily service components with embedded leases, while others are primarily lease components sold with attached products such as maintenance services.

5. Under current lease accounting guidance, the distinction between a lease and a service is not as controversial as it would be under the proposed new leases requirements. Partially, this is because many contracts, even if they are determined to be leases, would be classified as operating leases, resulting in the same accounting consequences as a service contract.
6. However, under the proposed new leases requirements, all lessees would recognize a right-of-use asset and an obligation to make rental payments (a lease liability) for all contracts that meet the definition of a lease and a lessor would record a receivable for the rental payments arising in the lease. All service contracts would be accounted for as executory contracts. Therefore, there could be much more pressure on distinguishing between leases and services.

Should an Arrangement That Contains Both Service and Lease Components Be Evaluated for Bifurcation?

Views Expressed in the Comment Letters to the DP

7. The March 2009 Discussion Paper on leases (DP) did not address the accounting for arrangements with both service and lease components. However, some respondents expressed concerns regarding the accounting for those arrangements. One respondent noted that, although bifurcating the lease and service components of an arrangement would be difficult, it would be possible for most lessees and lessors:

Separating the costs will inevitably require significant judgment and there is a danger in including guidance that is too prescriptive as this will encourage structuring. In practice, most lessees ought to have an idea of the split as, otherwise, they could not evaluate whether to enter into the transaction. (CL #35)

8. Another respondent commented that the more controversial distinction is how a lease will be defined in the first place:

In our view, there is a danger that contracts which have similar characteristics may not be accounted for consistently, for example, executory contracts, service contracts, maintenance contracts and lease contracts. Furthermore, requiring lessees to recognise assets and liabilities arising in all lease contracts may lead to arrangements being structured such that the contract would be qualified as a

contract for services rather than a contract conveying a right of use.
(CL #58)

Working Group Feedback

9. The staff asked the working group to provide input on the accounting for arrangements with both lease and service components.
10. While acknowledging the inherent challenges of differentiating between the service and lease components of an arrangement, working group members were almost unanimous in supporting the bifurcation of the service and lease components within an arrangement. One working group member noted the following:

Based on the "right-of-use approach" there is one dividing line between leases and other executory contracts. This is the right to use an asset. If there is no requirement to differentiate between leasing and service components for leases, services will be treated differently when they are arranged on a standalone basis. This would open structuring opportunities. Thus, as long as accounting for leases is different to accounting for services the requirement to bifurcate is definitely necessary.

11. One working group member noted that, in some leases (specifically, leases of real estate), a requirement to bifurcate the lease and service components of an arrangement would be impracticable and would provide little or no value to financial statement users:

Rents are purely market driven — how much will a tenant pay to be in a certain space in a retail center, office building, etc. Further, over the past 10 years, major retail and office leases have included single gross rentals or all-in rents based on a percentage of sales. The amount is based on the nature of the tenant's business, its bargaining power and, for retail tenants, its mall location and projected sales productivity and has very little to do with costs of providing certain services, e.g., keeping the property maintained and secure. In addition, a single tenant in most investment property does not have the right to secure third party services that would substitute for the landlord's services...most retail and office tenants/lessees contract for the maintenance of their own space. Any allocation of rental payments between rights to use space and keeping the property maintained and secure would be very arbitrary and, therefore, of no or very limited relevance to financial statement users.

12. A working group member noted that most real estate leases are not subject to the requirements in existing guidance to bifurcate service components with a lease:

We believe that EITF 08-1 only requires bifurcation when the services to be provided under the lease have value on a separate standalone basis to the tenant and for which a selling price exists. Since a tenant in a regional mall or multi-tenant office building cannot separately engage someone else to maintain the common areas, secure the tenant space, provide utilities to the tenant space, etc., and, therefore, there are no market prices for these services, I do not believe the landlord would have to bifurcate under 08-1.

Possible Approaches

13. The staff considered the following approaches:
- (a) Approach A: Include the amounts associated with service components in the lessee's lease liability and the lessor's lease receivable.
 - (b) Approach B: Evaluate whether the service and lease components in an arrangement should be bifurcated.

Analysis of Approaches

Approach A

14. Under Approach A, all payments under an arrangement that contains both service and lease components would be considered part of the lease payments and, therefore, would be included in the lease receivable (asset) by the lessor and the lease obligation (liability) by the lessee. Approach A would be simple to apply because it would require the inclusion of the full amount of the payments in the contract(s) in the lessee's obligation and the lessor's receivable. That is, the lessee's obligation would be the present value of the payments required under the lease contract for the estimated lease term.
15. No working group members supported this approach. They noted that this approach would result in the inclusion of service components, which are normally period costs, in the carrying amount of the lease asset and liability on the lessee's balance sheet.

16. Since current lease requirements require the bifurcation of service and lease components, changing the requirements would result in the loss of useful information.

Approach B

17. This approach would require an entity to evaluate whether the service and lease components in an arrangement should be bifurcated. If it determined that such an evaluation is necessary, as discussed further in the memorandum, the entity would exclude the amounts associated with service components from the lessee's lease liability and the lessor's lease receivable.
18. The staff thinks that this approach is the most consistent with both current leases and revenue recognition guidance, because it continues to require the allocation of the lease payments between its service and lease components. This approach also is supported by the majority of working group members, including both users and preparers.

Staff Recommendation

19. The staff thinks that Approach B is more consistent with the right-of-use model than the other approaches because it would result in the lessee including only the lease payments of the arrangement attributable to the right to use the underlying asset (that is, those portions of the arrangement that individually meet the definition of a lease) in the measurement of the lease assets and liabilities. Therefore, the staff recommends Approach B.
20. The staff notes, however, that structuring opportunities may continue to exist, specifically through the pricing of separate contracts for the service and lease portions of the arrangement. Consequently, the staff recommends an explicit requirement to evaluate all contracts with the same counterparty (including related parties to such counterparty) that are negotiated concurrently (that is, off-market service and lease contracts, with service components priced higher than market and lease components priced lower than market).

Question 1

Question 1 – The staff recommends that both lessors and lessees should be required to evaluate whether it should allocate the lease payment between service and lease components, considering all concurrently negotiated contracts with a third party.

Do the boards agree?

How Should the Lessor Bifurcate the Lease and Service Components?

Views Expressed in the Comment Letters

21. Some respondents to the DP expressed concerns with the impact of such arrangements on the proposed lessee accounting requirements. Specifically, they expressed concerns regarding the measurement of the allocation between/among the various components within an arrangement. One respondent noted the following:

Consequently, lessees will be required to estimate service payments in many cases. This could be done by comparing the lease to a lease with no services or to a stand-alone service contract. Whether it will be practicable or feasible for businesses to find equivalent contracts for comparison is questionable. (CL #29)

Working Group Feedback

22. Many working group members also stated that the proposed new leases requirements would not need to explicitly include guidance for the lessor in accounting for multiple-component arrangements. They think that the lessor should account for such arrangements in accordance with the proposed revenue recognition requirements.
23. Generally, working group members did not think that it would be a significant challenge for a lessor to allocate the lease payments among lease and service components:

Normally a lessor should be able to bifurcate lease payments into their constituent elements, as one would wonder how they were able to price a lease without being able to do so.

Analysis

24. Under current guidance (Section 840-10-15, originally issued as EITF Issue 01-8, and IFRIC 4), a lessor is required to allocate the lease payments among the various service and lease components based on a “relative selling price” concept.
25. The accounting for multiple-component arrangements is being addressed in the boards’ project on revenue recognition. Specifically, that project is evaluating the appropriateness of existing accounting guidance for such arrangements in light of the decisions made to date about the overall revenue recognition model.
26. The revenue recognition project addresses the accounting for multiple-component arrangements. The boards have tentatively concluded the following:
 - (a) An entity should allocate the transaction price to all performance obligations relative to the standalone selling prices of the goods or services underlying those performance obligations (that is, on a relative standalone selling price basis).
 - (b) An entity should evaluate all goods or services promised in the contract to determine whether to account for each promised good or service as a separate performance obligation.
 - (c) An entity should account for a performance obligation separately if the promised good or service is distinct from other goods or services promised in the contract. A good or service meets the criteria of being distinct if the entity, or another entity, sells an identical or similar good or service separately in the customer’s market. The customer’s market is the market in which the entity typically sells its goods or services. A good or service also could be distinct even if it is not sold separately in the customer’s market; indicators that a good or service is distinct include:
 - i. The good or service is identified separately in the contract.
 - ii. The good or service has a distinct profit margin.
 - iii. The good or service has a distinct function.

- iv. The good or service is transferred to the customer at a different time.
27. Thus, under the proposed revenue recognition guidance, the lessor and lessee in the arrangement would have to determine if a service is being transferred to the lessor to the lessee; that is, whether the lessee is obtaining a benefit from the lessor's performance. If a service is not being transferred to the lessee, then the entire arrangement is a lease.
28. If the arrangement has a service component, it must be evaluated for whether it is distinct from the lease based on the indicators listed above. If the service is not considered to be distinct from the lease, then it must be accounted for as part of the lease. If the service is considered distinct, then the associated portion of the arrangement would be bifurcated from the lease and accounted for under revenue recognition standards.

Staff Recommendation

29. The staff thinks that the preliminary conclusions reached by the boards in the revenue recognition project could be applied to arrangements with both service and lease components. The staff sees no reason why separate requirements need to be created to account for similar arrangements. The staff recommends that lessors be subject to the revenue recognition guidance for multiple-component arrangements, with no separate guidance provided in the proposed new leases requirements. Note that the proposed new leases requirements will provide the requisite guidance to allow the lessor to identify when an arrangement is or contains a lease.

Question 2

Question 2 – The staff recommends that a lessor be subject to the revenue recognition requirements regarding the identification of separate performance obligations within an arrangement.

If the service component in an arrangement is not considered distinct, it is accounted for as part of the lease.

If the service component is considered distinct, total payments under the arrangement should be allocated between the service and lease components using the same principles as those proposed in the pending Exposure Draft on revenue recognition.

Do the boards agree?

How Should the Lessee Bifurcate the Lease and Service Elements?

30. Working group members acknowledged that a lessee would face challenges in meeting the requirement to allocate the lease payments between lease and service components. Moreover, several working group members think that the proposed new leases requirements should address whether some arrangements that are considered leases under current guidance may be better reflected as service arrangements (with no embedded lease):

Comparing the price of such an all-inclusive service with the cost of a plain vanilla lease on a car may give an indication of the value of service elements, but for most customers this is simply not a viable option when they have a fleet of such cars to manage. They have already taken the decision not to employ fleet managers, car repair and insurance specialists and would therefore be unable to recreate the service provided without recruiting such specialised staff. The real question which needs to be answered is whether these contracts are leases or service contracts.

31. A working group member noted that the challenges with applying the bifurcation requirement are more pronounced from the standpoint of the lessee:

I do believe many lessee preparers will have difficulty applying the model to transactions that are currently considered to be — at most — operating leases under either EITF 01-8 or IFRIC 4 and I believe the accounting model as proposed for lessees will increase the burden on preparers without providing significant new information to users.

32. The lessee may often have less transparent information relative to the lessor regarding the following:

- (a) The specific assets included within a service arrangement with an embedded lease (for example, the cables/routers in a telecommunications contract)
- (b) Asset cost
- (c) Useful life of the underlying asset
- (d) Activities and pricing related to asset ownership (insurance, taxes, maintenance, etc.)

- (e) Pricing of some service-only contracts, which may not be readily available or transparent in the market, could be highly subjective.
33. However, the staff does not think that those challenges preclude lessees from applying the requirements as articulated in the proposed revenue recognition requirements regarding measurement. The requirement to allocate the lease payments between the service and lease components is most consistent with the right-of-use model; allocation would result in only those portions of an arrangement that by themselves meet the definition of a lease being included in the lessee's right-of-use asset. It is important to note that Section 840-10-15 and IFRIC 4 already require that lessees allocate payments between the service components of a contract and the lease components, while acknowledging that there are certain situations in which it may not be possible to perform such an allocation.
34. There also are situations in which allocation will not be necessary because of the immateriality of the lease component (at which point the arrangement is treated entirely as a service contract) or the immateriality of the service component (which would result in the entire arrangement being considered a lease).

Staff Recommendation

35. The staff recommends that there be no significant differences in the principles applied within the proposed new leases requirements regarding the lessee's measurement of the allocation between service and lease components within an arrangement as compared to the principles applied by the lessor.
36. However, there may be a need to include language from the revenue recognition guidance within the leases guidance for purposes of the lessee's accounting for arrangements with service and lease components. Additionally, this guidance would change the reference from "estimated selling price" to "relative fair value" because it is the lessor that is the seller in the transaction and not the lessee.

Question 3

Question 3 – The staff recommends that the lessee's identification of distinct components within an arrangement and measurement of the

allocation between distinct service and lease components within an arrangement be based on the same principles used by the lessor.

If the boards decide to carry over the proposed revenue recognition guidance into the proposed new leases guidance, the staff recommends that references to “estimated selling price” be changed to “relative fair value”.

Do the boards agree?

What If the Arrangement Price Cannot Be Allocated Among the Components?

37. There may be situations in which the lessor or, more likely, the lessee determines it is unable to reliably measure the service and/or lease components in an arrangement. In such situations, the accounting for the arrangement can be approached several ways.
38. Approach A: Perform a qualitative assessment of whether the lease payments are associated with primarily either the lease components or service components. If it is determined that the arrangement’s lease payments are primarily associated with the lease components, the entire arrangement would be accounted for as a lease. If it is determined that the lease payments are primarily associated with the service components, the arrangement would be accounted for as an executory contract; no portion of the contract would be accounted for as a lease.
39. The primary advantage to Approach A is that it would be simpler to apply than a quantitative measurement of the service and lease components. Also, quantitative measurement of the components of an arrangement can be more highly subjective than a qualitative one, because it would require management to be precise about the allocation of payments between the lease and service components of the arrangement. This would reduce comparability among entities entering into similar arrangements. As noted previously, reliable measurement could be especially challenging from the standpoint of the lessee in certain cases.

40. However, this approach could result in material lease components not being recognized by the purchaser as right-of-use assets and by the seller as lease receivables. This could reduce comparability between entities that enter into similar arrangements if one entity cannot estimate the relative fair value of the components while the other thinks it can reliably do so. Also, some staff members think that this assessment cannot be performed without some level of quantitative analysis, which could indicate that the entity has the ability to bifurcate and measure the lease and service components separately.
41. Approach B: Account for the entire arrangement as a lease, unless the lease portion is immaterial to the arrangement.
42. The primary advantage of Approach B is that it is simpler than either bifurcating the arrangement or adopting Approach A because the entire lease payments would be allocated to a lease. At the same time, this requirement also could serve to incentivize the lessor and lessee to expend reasonable effort to bifurcate and measure the lease and service components, which could lower the amount that is recorded on the balance sheet. An arrangement that contains a service component for which there is no market could be one indicator that the service component should not be separated from the lease component and should, therefore, be accounted for as part of the lease.
43. The disadvantage of Approach B is that it would account for portions of arrangements that are services as right-of-use assets, which is not consistent with the right-of-use model or the definition of a lease.

Staff Recommendation

44. Approach A is highly subjective and would result in accounting for at least some portion of the contract that does not meet the definition of a lease as a lease. The staff recommends Approach B because it thinks that Approach B is less subjective and would encourage entities to find ways to perform supportable quantitative analyses to bifurcate the lease and service components. Furthermore, the staff thinks it would be rare that an entity has identified a

service component as distinct yet it is unable to determine an allocation of the total payments between the service and lease components .

Question 4

Question 4 – If the lessor or lessee is unable to allocate the total payments among the service and lease components of an arrangement, the entire arrangement should be considered and accounted for as a lease.

Do the boards agree?

Accounting for Subsequent Changes in an Arrangement’s Consideration

45. Certain contracts that contain both service and lease components also may have changes in the payments, most notably due to lease term options and contingent rents. This section of the memorandum discusses the accounting for changes in payments under a contract that has both lease and service components.

Possible Approaches

46. Approach A: If a contract that contains both lease and service components also has contingent consideration, an entity should allocate the change in total consideration on a pro rata basis to the various contract components in the same proportion as determined at contract inception.

47. Approach B: If a contract that contains both lease and service components also has contingent consideration, an entity should first determine if the entire change is directly attributable to either the lease or the service component. If it is unable to do so, then the change in total consideration should be allocated on a pro rata basis to the various contract components in the same proportion as determined at contract inception.

Analysis of Approaches

48. Approach A would be consistent with the revenue recognition project’s proposed accounting for multiple-component arrangements in which the pricing of the various components is interdependent. In such cases, the revenue recognition project would require adjustment of the allocation of total consideration among the contract components through a pro rata allocation of

the change in consideration, using the proportionate allocation determined at contract inception.

49. Approach A also would be simpler because it only involves a mechanical calculation that would not be impacted by management subjectivity.
50. Approach B does not treat all changes in contingent consideration the same, because the economic reason for the change could be attributable wholly to the lease or the service. For instance, if an increase in contingent consideration is due to an increase in the maintenance labor hours, then the increase in consideration should be allocated to the service component.

Staff Recommendation

51. The staff recommends Approach A because it more closely depicts the economics that drive the changes in total contract consideration.

Question 5

Question 5 – If the total payments under an arrangement that contains both lease and service components changes subsequent to the arrangement's inception, an entity should allocate the change on a pro rata basis to the various contract components in the same proportion as determined at contract inception.

Do the boards agree?

Transition Considerations

52. The February 2010 IASB Agenda Paper 10D/FASB Memo 69 addresses transition considerations for lessees. Transition considerations for lessors are discussed in March 2010 IASB Agenda Paper 9D/FASB Memo 77.
53. Existing leases requirements require bifurcation of service and lease elements within an arrangement. For leases currently classified as finance leases, the bifurcation has been already done. For leases currently classified as operating leases, the requirement might be more difficult, but bifurcation is required for disclosure purposes.

54. The staff considered applying the transition requirements proposed for lessees in February 2010 IASB Agenda Paper 10D/FASB Memo 69 for all such arrangements assuming that those arrangements are wholly lease contracts (that is, there is no service element).
55. The staff thinks that accounting for services as leases would not reflect the economics of services since they would be treated differently than those services that are arranged on a standalone basis. Many working group members supported the bifurcation of the service and lease elements within an arrangement, because they will be accounted for very differently under the proposed new leases guidance. Not requiring bifurcation would reduce comparability.
56. Consequently, the staff recommends that an entity should be required to allocate the lease payments of all existing arrangements between service and lease elements, and the lease elements would be accounted for in accordance with the transition requirements proposed in February 2010 IASB Agenda Paper 10D/FASB Memo 69 for lessees.
57. The approach described above might be burdensome and costly for preparers to apply, because it requires bifurcation of such arrangements that contain leases that are currently classified as operating leases. However, this approach would increase comparability with similar arrangements entered into after the effective date of the proposed new leases requirements.

Question 6

Question 6 – The staff recommends that lessees and lessors should be required to bifurcate all arrangements that contain both service and lease elements, and apply the transition requirements to the lease elements on the transition date (that is, there would be no special transitional provisions for existing arrangements).

Do the boards agree?

Appendix—Illustrative Examples

1. As noted in this memorandum, the revenue recognition project proposes that an entity should account for a performance obligation separately if the promised good or service is distinct from other goods or services promised in the contract.
2. The following examples are provided to illustrate whether, in lease arrangements that contain both service components and lease components, a service component is distinct from the lease component. If a service is not distinct, then the entire amount of lease payments would be allocated to the lease. That is, the lessor and lessee would not have to perform an allocation of the lease payments between the lease components and the service components in the arrangement.
3. Example 1 – Basic Example of a Lease with Service Contract Attached:

<p>Lessor A leases a vehicle to Lessee B for a five-year lease term. Included in the agreement is a requirement that Lessor A performs all regularly scheduled maintenance on the vehicle during the lease term.</p> <p>Regular maintenance is sold separately by Lessor A and other competitors in the market. . The maintenance is considered necessary for the normal operation of the vehicle during the lease term.</p>
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- (a) Under this scenario, the right-of-use asset and maintenance services are being transferred from Lessor A to Lessee B. The maintenance services provide a benefit to Lessee B because they are considered necessary to maintain the economic output of the leased asset. Further, the maintenance services and vehicle lease would be considered distinct performance obligations, because regular maintenance is sold separately by Lessor A, as well as by others in the market.
 - (b) Having identified the lease and maintenance services as being distinct, both Lessor A and Lessee B would allocate the lease payments between the lease components and the service components based on their relative selling prices (for the lessor) or relative fair values (for the lessee).
4. Example 2 – Investment Property:

Lessor A owns a building and leases office space in the building to Lessee B for a five-year lease term. Lessor A is responsible for all maintenance related to the building. Lessor A does not receive a payment specifically for maintenance; but, rather, Lessor A bills Lessee B a fixed amount of rent on a monthly basis, which includes rent, common area maintenance, property taxes, and insurance.

The actual lease agreement and related invoices do not separately itemize the rental payments into its components. At the end of each quarter, Lessor A bills Lessee B for its proportionate usage of utilities (water, electricity).

- (a) Lessor A's payment of property taxes and insurance relate to Lessor A's obligation to third-party entities (that is, tax jurisdiction, insurance company) that are a consequence of Lessor A's ownership of the building. Lessor A is not paying Lessee B's obligations on its behalf and. Therefore, the property tax and insurance costs are not distinct from the lease.
- (b) Lessor A and Lessee B would not separate the costs relating to the property taxes and insurance from the lease because they are not distinct.
- (c) The quarterly billing for usage of utilities is distinct from the lease and therefore would be considered a period cost and would be expensed by the lessee as incurred.
- (d) In Example 2, the common area maintenance is distinct from the lease because it is identified separately in the contract and has a distinct function in that it has utility on its own even if it is not sold separately. Because the common area maintenance is considered distinct, it would need to be bifurcated from the lease components and accounted for as a service contract. An example of common area maintenance is when a landlord provides a snowplow service. This clearly provides utility to the lessee separate from the lease. Further, although a lessor will not sell the common area maintenance separately, there is a market for some of the services provided. Another example of common area maintenance is if a landlord agrees to provide tenants with a 24-hour

security guard. They often choose to outsource this function to a third-party security company rather than hire a security guard as an employee. As that service is distinct, it would be separated from the lease component of the contract.

5. Example 3 – Maintenance of Specialized Equipment:

Lessor A manufactured specialized equipment and leased it to Lessee B for a 10-year term. As part of the arrangement, Lessor A will perform maintenance of the equipment. Lessee B's monthly payment is not contractually split between the lease of the equipment and the maintenance of the equipment. There are currently no other parties that are appropriately familiar with the equipment, so Lessee B does not have direct market comparables to allocate the lease payments between the lease and service components.

- (a) Example 3 has a similar fact pattern as Example 1. However, since neither the lessor nor the lessee is able to identify other selling prices for the same services in the market due to the specialization of the equipment, and because the equipment would not be economically viable without the service, the maintenance service is not considered distinct and would be considered part of the lease. This could be analogized to the revenue recognition model's requirement that installation of specialized equipment be combined with other performance obligations; it is not considered a distinct good or service because it does not provide utility on its own. That is, the purchaser of the specialized equipment does not have appropriate functionality until the service is delivered.