

STAFF PAPER

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FASB | IASB Meeting

Project	Revenue recognition		
Paper topic	Identifying separate performance obligations – examples		
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Purpose of the paper

- The purpose of this paper is to illustrate how the staff’s recommendations in Agenda paper 7A apply to several examples.

Example 1: Software with postcontract customer support (PCS)

A customer enters into a contract with a software provider to purchase a new accounts receivable system.

As part of that contract, the software provider will:

- supply the software and
- provide postcontract customer support (PCS) for a period of two years, which consists of on-demand helpdesk support and unspecified when-and-if available software updates.

The software is considered to be “off-the-shelf software” in that it can be used without significant customization. The entity sells the software separately and delivers the software before PCS is provided. The entity also sells PCS separately on a yearly renewal basis. Those services provide the customer with ongoing helpdesk support and access to unspecified software updates (on a when-and-if available basis).

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Question	Staff response and consideration points
<p>What are the promised goods or services in the contract?</p>	<p>The entity has promised to provide 3 goods and services: (i) software, (ii) helpdesk support (a component of the PCS) and (iii) software updates (a component of the PCS).</p> <p>The helpdesk support and the unspecified when-and-if available software updates are assessed as being stand ready obligations.</p>
<p>Is the good or service (or bundle) capable of being distinct?</p>	<p>(i) Software – Yes, because the customer can benefit from the software on its own. This is evidenced by the fact that the entity also sells the software separately.</p> <p>(ii) Helpdesk support– Yes, because the customer can benefit from each increment of (standing ready to provide) helpdesk service in conjunction with the software already received (ie the software is a resource that is readily available to the customer).</p> <p>(iii) Software updates – Yes, because the customer can benefit from each increment of the service to (stand ready to) provide updates in conjunction with the software already received.</p>
<p>Is the good or service (or bundle) distinct in the context of the contract?</p> <p>(An entity would make this assessment by considering the ‘bundling’ principle and the related indicators)</p>	<p>Software – Yes, because none of the specified indicators suggest that the software is highly dependent or interrelated with either of the PCS services. In particular, any software updates would maintain or enhance functionality of the software rather than significant modify or customise the software.</p> <p>Helpdesk support – Each increment of helpdesk support service is not individually distinct in the context of the contract because they have the same pattern of transfer as</p>

every other increment of promised helpdesk service, which indicates that those services are highly interrelated.

Consequently, only the bundle of helpdesk support services is distinct in the context of the contract. Each increment of helpdesk support has the same pattern of transfer because they form a series of services that:

- (a) transfer to the customer over time, and
- (b) an entity would use a single method to measure progress for each increment of the service transferred delivered to the customer (in this case, the measure of progress would be time-based measure because the service is a stand ready obligation).

Software updates – Only the bundle of software update services is distinct in the context of the contract. (The same analysis applies for both software updates and helpdesk support services.)

How many separate performance obligations are in the contract?
What promises are included in each separate performance obligation?

There are three separate performance obligations:

- (i) software, (ii) the helpdesk support services, and (iii) the software updates.

In practice, an entity could account for the two components of the PCS (the helpdesk support and the updates) *as if they were a single performance obligation* because both are services that are provided concurrently and use the same measure of progress. Consequently, the timing and amount of revenue recognition would be the same regardless of whether the entity accounted for each bundle of services as a two performance obligations or one performance obligation.

Example 2: Sale of off the shelf software with customization services

An entity has a contract to supply customer relationship software and provide software customization services to a customer.

The software is considered to be “off-the-shelf software” in that it can be used without significant customization. The software is sold separately.

Scenario A – customization services only provided by the entity

The customization services specified in the contract require the entity to significantly modify the features and the functionality of the software code to meet precise, customised, specifications. In addition the entity will be building complex interfaces between the software and the customer’s existing IT environment.

Scenario B – customization services provided by other entities

In addition to the software license, the customer has issued a request for proposal on customization services on the software. In this case, the services involve modification to the existing code of the software but such modification is not extensive or specifically customised. The software vendor routinely provides these services and is highly qualified to perform them; however, these services are also available from other vendors who are equally qualified to provide the services. As these services do not carry a significant degree of difficulty, the customer, in this case, is looking to find the vendor who will provide these services at the lowest cost. The entity wins the bid on providing the services.

Question	Staff response and consideration points	
	Scenario A	Scenario B
What are the promised goods or services in the contract?	(2) Software, modification service and integration service.	Same

Is the good or service (or bundle) capable of being distinct?	Modification and integration service – Yes. The customer can benefit from these services with readily available resources. Software – Yes. The customer can benefit from the software on its own.	Same
Is the good or service (or bundle) distinct in the context of the contract (without including the pattern of transfer indicator in the analysis)?	No (should be combined). The software is highly dependent and interrelated with the services, which significantly modify and customize the software. Therefore, individually, the software and the services are inputs to produce a separate output and should be bundled.	Yes (services should be separated from the software). While like Scenario A the services are interrelated with the purchased software, the degree of dependency is significantly less. Additionally, the customer could choose to purchase, or not purchase, the services.
How many separate performance obligations are in the contract? What promises are included in each separate performance obligation?	1: the software and customization services together.	2: the software separate from the customization services.