# How to account for a license in a contract with a customer (Paper 7D/161D)

Step A: In addition to the license, has the entity promised to transfer other goods or services to the customer?

Yes

Step B: Is the license distinct from the other goods or services promised in the contract?

#### The license is not distinct

No

Therefore, combine the license with other promised goods or services to identify a **distinct bundle of goods or services** 

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Step C: When is the promise to transfer the distinct bundle of goods and services satisfied?

No

The promise, which is explicit in the contract or implied by customary business practice, must (apply paragraphs 24-26):

- identify the specific good(s) or service(s) that will transfer to the customer (or group of customers); and
- be enforceable or create a valid expectation that the entity will perform as promised.

Yes

## A license is distinct if it is (apply paragraphs 27-30 or language proposed in Paper A):

- 1. Capable of being distinct
  Customer can benefit from the good or service
  on its own or together with other resources
  that are readily available to the customer
- Distinct in context of the contract
   The good or service is not highly dependent or highly interrelated with other promised goods or services in the contract

Apply paragraphs 35-37

## The license is distinct

The promise to transfer the license to the customer is a performance obligation that is satisfied at a point in time (BC315(a) & BC316)<sup>1</sup>

For the bundle, either:

• Recognize revenue over time

if the bundle is a performance obligation that is satisfied over time, in accordance with paragraph 35

#### OR

Recognize revenue at a point in time
 if the bundle is a performance obligation that is satisfied at a point in time, in accordance with paragraph 37

<sup>1 =</sup> The Boards rejected the view in BC315(b) that "a license represents access to the entity's intellectual property that the entity satisfies continuously over the pattern of use of the underlying rights to use the entity's intellectual property by the customer". BC316 explains that the boards preferred the view that the license represents a performance obligation that the entity satisfies at the point in time when the customer obtains control of the license "because it focuses on the transfer of control of a promised asset, which is the core principle of the revenue model."

### Applying the steps to illustrative examples in paper 7D/161D\*

	Example 1: Franchise Agreement	Example 2: Drug Distribution Agreement	Example 3: Software Agreement	Example 4: Database Access	Example 5: Compound License
Page in the paper	8	8	10	11	12
Step A:	Yes – specific agreed-	No – general	Yes – unspecified	Yes – access	No – no additional
Has the entity	upon advertising	marketing activities do	software updates		promises identified
promised to transfer a	campaigns	not represent a			with the contract
good or service other		promise identified			
than the license?		with the contract			
Step B:	No – not distinct	N/A	No – customer cannot	No – customer cannot	N/A
Is the license distinct	within the context of		benefit from license	benefit from database	
from the other	the contract		without the	without access,	
promised goods or			unspecified updates	database rights cannot	
services?				be purchased separate	
				from access	
Step C:	Combine franchise	Recognize at point in	Combine software	Combine the right to	Recognize at point in
When is the promise to	license with	time when exclusive	license with updates	use the database with	time when rights to
transfer the distinct	advertising and	rights are transferred	and recognize over	access and recognize	compound are
bundle of goods and	recognize over time	to customer (37)	time	over time	transferred to
services satisfied?	(35(b)(ii))		(35(b)(ii))	(35(b)(ii))	customer (37)

<sup>\*</sup> Examples 6 and 7 in the paper 7D/161D have been intentionally excluded from this table.

<sup>&</sup>lt;sup>†</sup> Paper 7D/161D specified that the licenses in examples 2, 3, 4 and 5 grant the customer the right to use the intellectual property of the entity for a defined period of time (ie term or time based license).