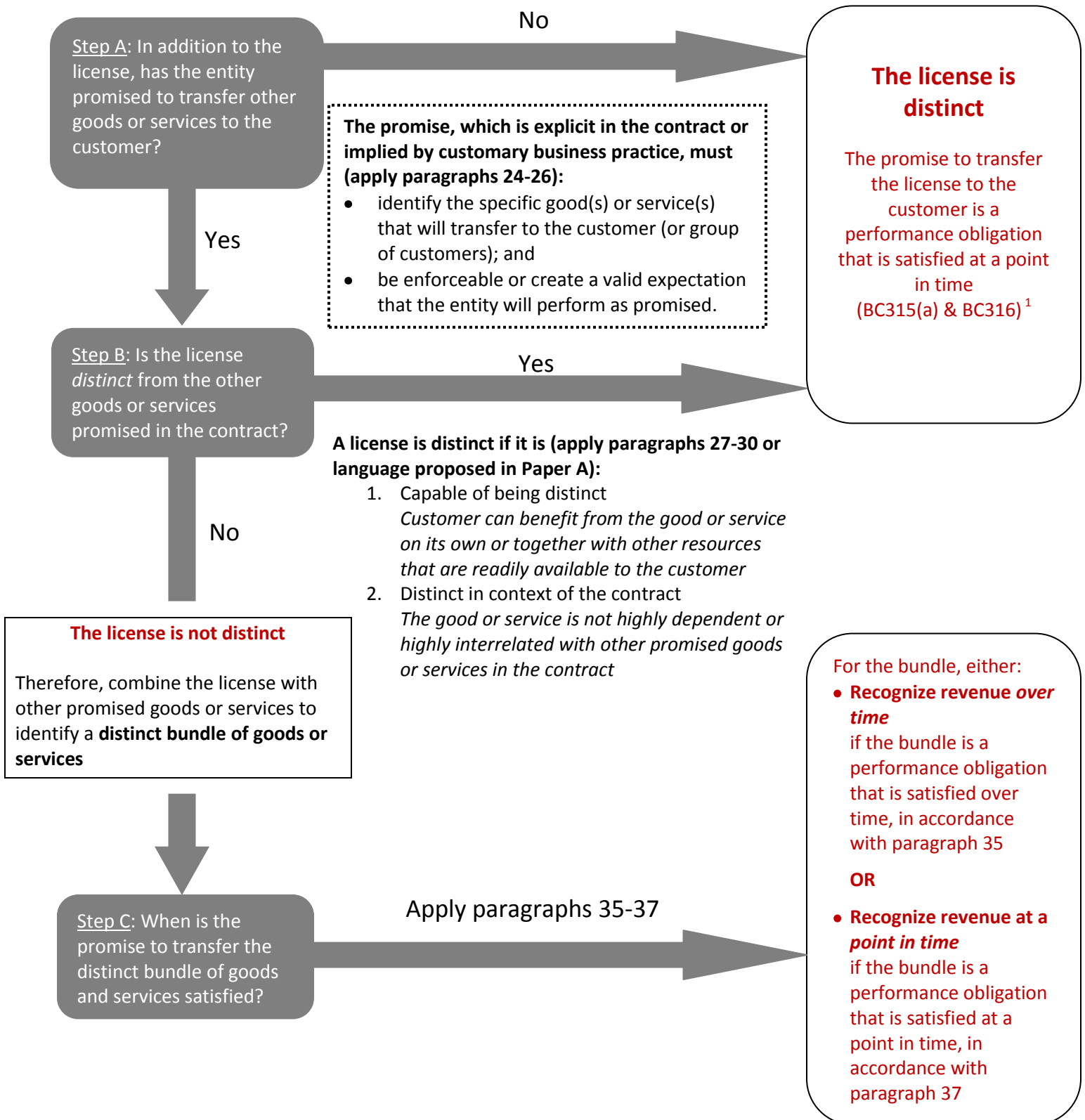


## How to account for a license in a contract with a customer (Paper 7D/161D)



<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\***

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

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

<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).