

Vendor-specific objective evidence



Hemo-Tech Case Presentation Outline * 1 Myles Intro: Facts: * 1 Issues: Multiple Element Arrangement * How should revenue be allocated to each deliverable? * What sales price should be allocated to each deliverable? * How are deliverables defined? * 25-4 “ A vendor shall evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. That evaluation shall be performed at the inception of the arrangement and as each item in the arrangement is delivered. * 25-5 “ In an arrangement with multiple deliverables, the delivered item or items shall be considered a separate unit of accounting if both of the following criteria are met: * a. The delivered item or items have value to the customer on a standalone basis. The item or items have value on a standalone basis if they are sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis. In the context of a customer's ability to resell the delivered item(s), this criterion does not require the existence of an observable market for the deliverable(s). b. Subparagraph superseded by Accounting Standards Update No. 2009-13 * c. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in the control of the vendor * 25-6 “ A delivered item or items that do not qualify as a separate unit of accounting within the arrangement shall be combined with the other applicable undelivered item(s) within the arrangement.

The allocation of arrangement consideration and the recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. ” * * warranty, update machines * 2 Sandra Alternatives: *

Company's selling price to a different customer * A different company's selling price of the same product * Selling price of a similar product's profit margin, applied to the total costs of product * Proportional based on costs * 3

4 Troy Jessie Literature: Multiple-Deliverable Revenue Arrangements: ASC 605-25 * Vendor-specific objective evidence: ASC 605-25-30-6A * 30-6A Vendor-specific objective evidence of selling price is limited to either of the following: * a. The price charged for a deliverable when it is sold separately (annually, supplies-\$3, 000 per box, monitor and test-\$600, 000 annually) * b. For a deliverable not yet being sold separately, the price established by management having the relevant authority (it must be probable that the price, once established, will not change before the separate introduction of the deliverable into the marketplace). Third-party evidence: ASC 605-25-30-6B * Third-party evidence of selling price is the price of the vendor's or any competitor's largely interchangeable products or services in standalone sales to similarly situated customers. * screen and report services-\$730, 000 median price * Estimated selling price: ASC 605-25-30-6C * The vendor's best estimate of selling price shall be consistent with the objective of determining vendor-specific objective evidence of selling price for the deliverable; that is, the price at which the vendor would transact if the deliverable were sold by the vendor regularly on a standalone basis.

The vendor shall consider market conditions as well as entity-specific factors when estimating the selling price. * equipment * 5 6 Kelly Crystal Recommendations * IFRS: IAS 18? Type: Revenue Recognition Subject: Accounting for multiple-element revenue transactions under U. S. GAAP

(specifically identifying deliverables and determining selling price) and exploring the sources of IFRS guidance for such transactions