FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: September 30, 2009
Comments Due: October 26, 2009

Research and Development (Topic 730)

Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition
(A Consensus of the FASB Emerging Issues Task Force)

This Exposure Draft of a proposed Accounting Standards Update of Topic 730 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. EITF0902

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*™ is the single source of authoritative nongovernmental U.S. generally accepted accounting principles. An Accounting Standards Update is not authoritative; rather, it is a document that communicates the specific amendments that change the Accounting Standards Codification. It also provides other information to help a user of U.S. GAAP understand how and why U.S. GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send written comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received in writing by October 26, 2009. Interested parties should submit their comments by email to director@fasb.org, File Reference No. EITF0902. Those without email should send their comments to "Technical Director, File Reference No. EITF0902, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to its website and by making them available in its public reference room in Norwalk, Connecticut.

An electronic copy of this Exposure Draft is available on the FASB's website until the FASB issues a final Accounting Standards Update.

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Why Is the FASB Issuing This EITF-Developed Proposed Accounting Standards Update (Update)?

Before the recent amendments to the accounting requirements for business combinations, research and development assets were accounted for in the same manner irrespective of whether they were purchased as individual assets, as part of a group of assets, or in a business combination. As a result of the business combination amendments, the accounting treatment for research and development assets acquired in a business combination is now inconsistent with the accounting treatment for research and development assets acquired in an asset acquisition. Specifically, research and development assets acquired in a business combination are now initially recognized and measured at fair value, while research and development assets acquired in an asset acquisition are recognized only if the assets have a future alternative use, otherwise the assets are expensed at the acquisition date.

During the Board's deliberations on business combinations, a number of respondents to the business combinations exposure draft questioned why the form of the transaction in which an entity acquires research and development assets should result in a different accounting treatment. This proposed Update addresses that inconsistency.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update will affect any entity that acquires tangible and intangible research and development assets (individually or with a group of assets) or issues contingent consideration in an asset acquisition. Although the amendments are expected to most significantly affect entities that are in the technology and pharmaceutical industries, it is not limited to any particular industry.

What Are the Main Provisions?

Accounting Guidance

As a result of the amendments in this proposed Update, all tangible and intangible research and development assets acquired in an asset acquisition would be capitalized regardless of whether those assets have a future alternative use. Acquired intangible research and development assets would be considered indefinite-lived assets until completion or abandonment of the related research and development activities. Once the research and development efforts are completed or abandoned, the entity would determine the useful life of the assets.

In addition, any contingent consideration arrangements related to the acquisition of an asset or asset group (regardless of whether the asset group includes research and development assets) would continue to be accounted for in accordance with existing U.S. generally accepted accounting principles (GAAP). For example, if the contingent consideration meets the definition of a derivative, Topic 815 (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*) requires that it be recognized at fair value. In addition, Topic 450 (formerly FASB Statement No. 5, *Accounting for Contingencies*) may require recognition of the contingent consideration if it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated, and Subtopic 323-10 (formerly EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations") may require the recognition of the contingent consideration if it relates to the acquisition of an investment that is accounted for under the equity method. Where contingent consideration is recognized in accordance with existing authoritative guidance, such amount would be included in the initial measurement of the cost of the acquired assets. If the contingent consideration is not required to be initially accounted for, but subsequently the contingency is resolved and the consideration is paid or becomes payable, such amount would be included in the measurement of the cost of the acquired assets. However, if the contingent arrangement is a derivative, any changes in the carrying value of the derivative instrument after the inception of the arrangement would not be included in the cost of the acquired asset or group of assets.

Payments to the former owners of an asset or asset group for future services are considered a separate transaction and not accounted for as part of the asset acquisition. An entity will need to evaluate whether a contingent payment relates to future service or relates to the asset(s) acquired. Topic 805, Business Combinations, provides guidance on determining whether a payment represents a payment for future service or a contingent payment for the business acquired. This proposed Update does not provide any additional guidance to assist in making that evaluation in an asset acquisition.

The amendments in this proposed Update would not affect the accounting for internally developed research and development activities. Costs incurred associated with internally developed research and development would continue to be accounted for in accordance with applicable existing guidance, which would generally result in the expensing of such costs.

Disclosures

An entity would be required to disclose how contingent consideration in an asset acquisition will be accounted for when the contingent payment is made. This disclosure is in addition to disclosures currently required by other specific applicable U.S. GAAP, which may include (1) the nature of the contingent payment arrangement and (2) an estimate of the possible contingent consideration or range of contingent consideration or a statement that such an estimate cannot be made.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update would result in the capitalization of all tangible and intangible research and development assets acquired in an asset acquisition regardless of whether those assets have a future alternative use. Currently, research and development assets acquired in an asset acquisition that do not have a future alternative use are expensed upon acquisition. The amendments would partially align the accounting for acquired research and development assets in an asset acquisition with the accounting for such assets in a business combination. However, accounting differences will still remain for these assets in an asset acquisition when compared with a business combination. For example, the initial measurement for these assets in an asset acquisition is based on allocated cost, while they will be recognized at fair value in a business combination.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be effective for acquisitions of assets occurring in fiscal years beginning on or after December 15, 2009. The amendments would be applied on a prospective basis to all acquisitions of assets occurring after the effective date. Early application is not permitted.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS provides that an intangible asset acquired is recognized at its cost if (1) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and (2) the cost of the asset can be measured reliably. The proposed amendments will more closely align U.S. GAAP with IFRS, as research and development assets acquired in an asset acquisition are generally capitalized under IFRS.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree that the cost of acquired tangible and intangible research and development assets acquired in an asset acquisition should be capitalized, regardless of whether they have a future alternative use? Why or why not?

Question 2: Do you agree that contingent payment arrangements in an asset acquisition should not be recognized at fair value unless those arrangements are derivatives?

Question 3: This proposed Update does not provide guidance for determining whether a contingent payment relates to future services or consideration for the asset acquired. Paragraph 805-10-55-25 provides guidance for determining whether payments made to the seller in a business combination after the acquisition date relate to the acquisition of the business or the performance of future services by the seller? Do you believe that additional guidance is necessary for assisting in making this determination in an asset acquisition? If you believe additional guidance is necessary, please provide any factors that you believe should be considered in making this determination.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–30. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out.~~

Amendments to Topic 730

2. Supersede paragraphs 730-10-05-2 through 05-3, with a link to transition paragraph 730-10-65-1, as follows:

730-10-05-2 Paragraph superseded by Accounting Standards Update 2009-XX. ~~At the time most research and development costs are incurred, the future benefits are at best uncertain. In other words, there is no indication that an economic resource has been created. Moreover, even if at some point in the progress of an individual research and development project the expectation of future benefits becomes sufficiently high to indicate that an economic resource has been created, the question remains whether that resource should be recognized as an asset for financial accounting purposes. Although future benefits from a particular research and development project may be foreseen, they generally cannot be measured with a reasonable degree of certainty. There is normally little, if any, direct relationship between the amount of current research and development expenditures and the amount of resultant future benefits to the entity. Research and development costs therefore fail to satisfy the suggested measurability test for accounting recognition as an asset.~~

730-10-05-3 Paragraph superseded by Accounting Standards Update 2009-XX. ~~Also, there is often a high degree of uncertainty about whether research and development expenditures will provide any future benefits. Thus, even an indirect cause and effect relationship can seldom be demonstrated. Because there is generally no direct or even indirect basis for relating costs to revenues, the principles of associating cause and effect and systematic and rational allocation cannot be applied to recognize research and development costs as expenses. That is, the notion of matching, when used to refer to the process of recognizing costs as expenses on any sort of cause and effect basis, cannot be applied to research and development costs. The general lack of discernible future benefits~~

~~at the time the costs are incurred indicates that the immediate recognition principle of expense recognition should apply.~~

3. Amend paragraph 730-10-15-4, with a link to transition paragraph 730-10-65-1, as follows:

730-10-15-4 The guidance in this Topic does not apply to the following transactions and activities:

a. Accounting for the costs of research and development activities conducted for others under a contractual arrangement, which is a part of accounting for contracts in general. Indirect costs, including indirect costs that are specifically reimbursable under the terms of a contract, are also excluded from the scope of this Topic.
b. Activities that are unique to entities in the extractive industries, such as prospecting, acquisition of mineral rights, exploration, drilling, mining, and related mineral development.
c. The acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities. A process may be intended to achieve cost reductions as opposed to revenue generation. However, (e), below, specifically excludes market research or market testing activities from research and development activities. Those activities were excluded because they relate to the selling function of an entity. Thus, while in the broadest sense of the word, a process may be used in all of an entity's activities, the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities shall be excluded from the definition of research and development activities. To the extent, therefore, that the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs. Examples of the excluded costs of software are those incurred for development by an airline of a computerized reservation system or for development of a general management information system. See Subtopic 350-40 for guidance related to costs of computer software developed or obtained for internal use and Subtopic 985-20 for computer software intended to be sold, leased, or marketed.
d. Routine or periodic alterations to existing products, production lines, manufacturing processes, and other ongoing operations even though those alterations may represent improvements.
e. Market research or market testing activities.
f. Research and development assets acquired in a business combination. Tangible and intangible assets acquired in a business combination that are used in research and development activities are recognized and measured at fair value in accordance with

Subtopic 805-20~~, regardless of whether they have an alternative future use~~. After initial recognition, tangible assets acquired in a business combination that are used in research and development activities are accounted for in accordance with their nature. After initial recognition, intangible assets acquired in a business combination that are used in research and development activities are accounted for in accordance with Topic 350.

4. Amend paragraph 730-10-25-1, with a link to transition paragraph 730-10-65-1, as follows:

730-10-25-1 Tangible and intangible **research and development** assets acquired shall be capitalized and initially measured in accordance with paragraph 805-50-30-3. All other ~~**Research and development** costs~~ research and development costs encompassed by this Subtopic shall be charged to expense when incurred. As noted in paragraph 730-10-15-4(f), this Topic does not apply to tangible and intangible assets acquired in a business combination that are used in research and development activities.

5. Amend paragraph 730-10-25-2, with a link to transition paragraph 730-10-65-1, as follows:

730-10-25-2 Elements of costs shall be identified with research and development activities as follows (see Subtopic 350-50 for guidance related to website development):

a. Tangible Assets. Tangible assets (for example, materials, equipment, and facilities) ~~Materials, equipment, and facilities. The costs of materials (whether from the entity's normal inventory or acquired specially for research and development activities) and equipment or facilities~~ that are acquired (either individually or with a group of assets) ~~or constructed~~ for research and development activities ~~and that have alternative future uses (in research and development projects or otherwise)~~ shall be capitalized ~~as tangible assets~~ when acquired~~ or constructed~~. Tangible assets acquired in other than a business combination shall be measured at allocated cost consistent with paragraph 805-50-30-3. The cost of such materials consumed in research and development activities and the depreciation of such equipment or facilities used in those activities are research and development costs.~~ However, the costs of materials, equipment, or facilities that are acquired or constructed for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic values are research and development costs at the time the costs are incurred.~~ See Topic 360 for guidance related to property, plant, and equipment; the Impairment or Disposal of Long-Lived Assets

Subsections of Subtopic 360-10 for guidance related to impairment and disposal; and paragraphs 360-10-35-2 through 35-6 for guidance related to depreciation.

b. Personnel. Salaries, wages, and other related costs of personnel engaged in research and development activities shall be included in research and development costs.

c. Intangible assets purchased from others. ~~The costs of intangible~~ Intangible assets that are purchased from others (either individually or with a group of assets) for use in research and development activities ~~and that have alternative future uses (in research and development projects or otherwise) shall be accounted for in accordance with Topic 350.~~ shall be measured at allocated cost consistent with paragraph 805-50-30-3. All intangible assets acquired for use in research and development activities shall be considered indefinite lived until the completion or abandonment of the associated research and development activities. During the period those assets are considered indefinite lived, they shall not be amortized but shall be tested for impairment in accordance with Subtopic 350-30. Once the research and development efforts are completed, the entity shall determine the useful life of the assets on the basis of the guidance in Subtopic 350-30. The amortization of those intangible assets used in research and development activities is a research and development cost. Payments for another entity's services to perform research and development or reimbursements for research and development costs are not considered intangible assets purchased from others.~~However, the costs of intangibles that are purchased from others for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic values are research and development costs at the time the costs are incurred.~~

d. Contract services. Payments for services performed by others in connection with the research and development activities of an entity, including research and development conducted by others ~~in~~on behalf of the entity, shall be included in research and development costs.

e. Indirect costs. Research and development costs shall include a reasonable allocation of indirect costs. However, general and administrative costs that are not clearly related to research and development activities shall not be included as research and development costs.

6. Amend paragraphs 730-10-25-3 through 25-4, with a link to transition paragraph 730-10-65-1, as follows:

730-10-25-3 When software for use in research and development activities is purchased or leased, its cost shall be accounted for as specified by (c) in the preceding paragraph and paragraph 730-10-25-1.~~ That is, the cost shall be charged to expense as incurred unless the software has alternative future uses (in research and development or otherwise).~~

730-10-25-4 Development of software to be used in research and development ~~activities~~<u>activities,</u> ~~includes~~<u>including</u> costs incurred by an entity in developing computer software internally for use in its research and development activities, are research and development costs and, therefore, shall be charged to expense when <u>incurred;</u>~~incurred. The alternative future use test does not apply to the internal development of computer software;~~ paragraph 730-10-25-2(c) applies only to intangibles purchased from others. This includes costs incurred during all phases of software development because all of those costs are incurred in a research and development activity.

7. Amend paragraph 730-10-55-3, with a link to transition paragraph 730-10-65-1, as follows:

730-10-55-3 Nonrefundable advance payments for future research and development activities for materials, equipment, facilities, and purchased intangible assets ~~that have an alternative future use (in research and development projects or otherwise)~~ are within the scope of this Subtopic. Subtopic 730-20 ~~(Research and Development>Overall Research and Development Arrangements)~~ provides guidance on accounting for nonrefundable advance payments for goods or services that have the characteristics that will be used or rendered for future research and development activities pursuant to an executory contractual arrangement.

8. Amend paragraph 730-20-25-14, with a link to transition paragraph 730-10-65-1, as follows:

730-20-25-14 Paragraph 730-10-55-3 states that nonrefundable advance payments for future research and development activities for materials, equipment, facilities, and purchased intangible assets ~~that have an alternative future use (in research and development projects or otherwise)~~ shall be recognized in accordance with Subtopic 730-10~~ (Research and Development>Overall)~~.

9. Amend paragraph 730-20-35-1, with a link to transition paragraph 730-10-65-1, as follows:

730-20-35-1 Nonrefundable advance payments capitalized under paragraph 730-20-25-13 shall be <u>accounted for in accordance with Subtopic 730-10</u> ~~recognized as an expense~~ as the related goods are delivered or the related services are performed. An entity shall continue to evaluate whether it expects the goods to be delivered or services to be rendered. If an entity does not expect the goods to be delivered or services to be rendered, the advance payment capitalized under paragraph 730-20-25-13 shall be charged to expense. The guidance in this paragraph does not apply to refundable advance payments for future research and development activities. An entity shall not apply the guidance in this paragraph by analogy to other types of advance payments.

Amendments to Topic 805

10. Amend paragraph 805-20-35-5, with a link to transition paragraph 730-10-65-1, as follows:

805-20-35-5 Additional guidance on subsequently measuring and accounting for assets acquired in a business combination is addressed in Subtopic 350-30, which prescribes the accounting for **identifiable intangible assets** acquired in a business combination, including recognition of intangible assets used in research and development activities~~, regardless of whether those assets have an alternative future use,~~ and their classification as indefinite-lived until the completion or abandonment of the associated research and development efforts.

11. Add paragraph 805-50-30-2A, with a link to transition paragraph 730-10-65-1, as follows:

805-50-30-1 Paragraph 805-50-25-1 discusses exchange transactions that trigger the initial recognition of assets acquired and liabilities assumed. Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the **fair value** of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books.

805-50-30-2 Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or **equity interests** issued), measurement is based on either the cost to the acquiring entity or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable.

805-50-30-2A An entity is required to determine if contingent payments in an arrangement to acquire assets relate to the acquisition of the asset **(contingent consideration)** or the performance of future services by the seller. Contingent consideration in an asset acquisition shall be accounted for in accordance with other Topics. For example, if the contingent consideration meets the definition of a derivative, Topic 815 would require that it be recognized at fair value. Alternatively, Topic 450 may require the recognition of the contingent consideration if it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated or Subtopic 323-10 may require the recognition of the contingent consideration related to the acquisition of an investment that is accounted for under the equity method. When the contingent consideration is recognized (either initially when the assets are acquired or when the contingency is resolved and the consideration is paid or becomes payable), that amount would be included in the measurement of the cost of the acquired asset or group of assets. However, adjustments to the carrying value of a derivative instrument related to an asset acquisition that occur subsequent to the inception of the arrangement shall not be recognized as part of the cost of the asset.

12. Amend paragraph 805-50-30-3, with a link to transition paragraph 730-10-65-1, as follows:

805-50-30-3 Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in ~~the preceding two~~ paragraphs 805-50-30-1 through 30-2A. The cost of a group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair values and does not give rise to **goodwill.**

13. Add paragraph 805-50-50-5, with a link to transition paragraph 730-10-65-1, as follows:

805-50-50-5 For asset acquisitions that include a contingent consideration arrangement, in addition to the disclosures required by other specific guidance, for example, Topic 815; Topic 450; or Subtopic 323-10, disclose how the contingent consideration will be accounted for when the contingency is resolved and the consideration is paid or becomes payable.

Amendments to Topic 985

14. Amend paragraph 985-20-25-1, with a link to transition paragraph 730-10-65-1, as follows:

985-20-25-1 All costs incurred to establish the technological feasibility of a computer software product to be sold, leased, or otherwise marketed are research and development costs. Those costs shall be charged to expense when incurred as required by Subtopic 730-10. Tangible and intangible assets acquired in an asset acquisition that are used in research and development activities are recognized and measured in accordance with Topic 730.

15. Amend paragraph 985-20-25-8, with a link to transition paragraph 730-10-65-1, as follows:

985-20-25-8 The cost of purchased computer software to be sold, leased, or otherwise marketed ~~that has no alternative future use~~ shall be capitalized in accordance with Subtopic 730-10.~~accounted for the same as the costs incurred to develop such software internally, as specified in paragraphs 985-20-25-1 through 25-6.~~

16. Supersede paragraphs 985-20-25-9 through 25-10, with a link to transition paragraph 730-10-65-1, as follows:

985-20-25-9 Paragraph superseded by Accounting Standards Update 2009-XX.~~An entity shall capitalize the total cost of purchased software if the criteria specified in paragraph 985-20-25-2 are met at the time of purchase. Otherwise, the cost will be charged to expense as research and development. For example, if the technological feasibility of a software product as a whole (that is, the product that will be ultimately marketed) has been established at the time software is purchased, the cost of the purchased software shall be capitalized and further accounted for in accordance with the other provisions of this Subtopic. The cost of software purchased to be integrated with another product or process shall be capitalized only if technological feasibility is established for the software component and if all research and development activities for the other components of the product or process are completed at the time of purchase.~~

985-20-25-10 Paragraph superseded by Accounting Standards Update 2009-XX. ~~If purchased software has an alternative future use, the cost shall be capitalized when the software is acquired and accounted for in accordance with its use. The alternative future use test also applies to purchased software that will be integrated with a product or process in which the research and development activities for the other components are not complete.~~

17. Amend paragraph 985-20-55-13, with a link to transition paragraph 730-10-65-1, as follows:

985-20-55-13 An entity may purchase software that will be integrated into another software or hardware product. The cost of purchased computer software to be sold, leased, or otherwise marketed shall be capitalized when the software is acquired, regardless of whether technological feasibility is established at the time of purchase.~~Assuming that purchased computer software has no alternative future use, its costs can be capitalized only if the technological feasibility of the product to be ultimately marketed has been established at the time of purchase. Such factors as the timing of receipt or the status of hardware and internal software development may be crucial in determining whether technological feasibility is established at the time of purchase.~~

18. Supersede paragraph 985-20-55-14 and its related heading, with a link to transition paragraph 730-10-65-1, as follows:

~~> > > Software Purchased Before Technological Feasibility Established~~

985-20-55-14 Paragraph superseded by Accounting Standards Update 2009-XX. ~~An entity may purchase software before technological feasibility has been established. For example, an entity purchases software for $100,000 that can be resold for $75,000. The amount of $25,000 would be charged to research and development, and $75,000 would be capitalized. If the software product reached~~

~~technological feasibility, the $75,000 would be included in the cost of the software product. If the technological feasibility of the software was never established, the $75,000 would be classified as inventory.~~

19. Amend paragraph 985-20-55-18, with a link to transition paragraph 730-10-65-1, as follows:

985-20-55-18 Costs incurred for **product enhancements** ~~should be charged to expense as~~ <u>are considered</u> research and development until the technological feasibility of the enhancement has been established<u> and should be accounted for in accordance with Subtopic 730-10</u>. If the original product will no longer be marketed, any unamortized cost of the original product should be included with the cost of the enhancement for purposes of applying the net realizable value test and amortization provisions. If the original product will remain on the market along with the enhancement, the unamortized cost of the original product should be allocated between the original product and the enhancement.

20. Amend paragraph 985-350-25-1, with a link to transition paragraph 730-10-65-1, as follows:

985-350-25-1 Paragraph 985-20-25-3 addresses capitalizing costs of producing **product masters** incurred after establishing technological feasibility. Paragraph ~~985-20-25-10~~ <u>985-20-25-8</u> addresses capitalizing the costs of purchased software~~ that has an alternative future use~~.

Amendments to Topic 350

21. Amend paragraph 350-30-35-7, with a link to transition paragraph 730-10-65-1, as follows:

350-30-35-7 An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period.~~ However, paragraph 730-10-25-2(c) requires amounts assigned to intangible assets acquired in a transaction other than a business combination that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.~~

22. Amend paragraph 350-30-35-17A, with a link to transition paragraph 730-10-65-1, as follows:

350-30-35-17A Intangible assets acquired in a business combination <u>or an asset acquisition</u> that are used in research and development activities ~~(regardless of whether they have an alternative future use)~~ shall be considered indefinite lived until the completion or abandonment of the associated research and development efforts. During the period those assets are considered indefinite lived they shall not be amortized but shall be tested for impairment in accordance with the following paragraph. Once the research and development efforts are completed or abandoned, the entity shall determine the useful life of the assets based on the guidance in this Section. Consistent with the guidance in paragraph 360-10-35-49, intangible assets ~~acquired in business combination~~ that have been temporarily idled shall not be accounted for as if abandoned.

23. Amend paragraph 350-30-50-1, with a link to transition paragraph 730-10-65-1, as follows:

350-30-50-1 For **intangible assets** acquired either individually or as part of a group of assets (in either an asset acquisition or a business combination), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

a. For intangible assets subject to amortization, all of the following:
   1. The total amount assigned and the amount assigned to any **major intangible asset class**
   2. The amount of any significant **residual value,** in total and by major intangible asset class
   3. The weighted-average amortization period, in total and by major intangible asset class.
b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.
c. The amount of research and development assets acquired in a transaction other than a business combination ~~and written off in the period and the line item in the income statement in which the amounts written off are aggregated~~.
d. For intangible assets with renewal or extension terms, the weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.

This information also shall be disclosed separately for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

24. Amend paragraph 350-40-15-7, with a link to transition paragraph 730-10-65-1, as follows:

350-40-15-7 The following costs of internal-use computer software are included in research and development and shall be accounted for in accordance with the provisions of Subtopic 730-10:

a. Purchased or leased computer software used in research and development activities ~~where the software does not have alternative future uses~~

b. All internally developed internal-use computer software (including software developed by third parties, for example, programmer consultants) in either of the following circumstances:
    1. The software is a pilot project (that is, software of a nature similar to a pilot plant as noted in paragraph 730-10-55-1(h)).
    2. The software is used in a particular research and development <u>project</u>~~project, regardless of whether the software has alternative future uses~~.

25. Amend paragraph 350-50-25-4, with a link to transition paragraph 730-10-65-1, as follows:

350-50-25-4 All costs relating to software used to operate a website shall be accounted for under Subtopic 350-40 unless a plan exists or is being developed to market the software externally. Software for which a plan exists or is being developed to market the software externally is subject to Subtopic <u>985-20.</u>~~985-20, and costs associated with the development of that software shall be expensed until technological feasibility is established.~~ See paragraph 985-20-25-2.

26. Amend paragraph 350-50-25-6, with a link to transition paragraph 730-10-65-1, as follows:

350-50-25-6 Costs ~~incurred to purchase software tools, or costs~~ incurred during the application development stage for internally developed tools, shall be <u>accounted for in accordance with paragraph 350-40-15-7.</u>~~capitalized unless they are used in research and development and meet either of the following conditions:~~

a. <u>Subparagraph superseded by Accounting Standards Update 2009-XX.</u>~~They do not have any alternative future uses.~~
b. <u>Subparagraph superseded by Accounting Standards Update 2009-XX.</u>~~They are internally developed and represent a pilot project or are being used in a specific research and development project (see paragraph 350-40-15-7).~~

Amendment to Topic 340

27. Amend paragraph 340-10-25-1, with a link to transition paragraph 730-10-65-1, as follows:

340-10-25-1 Design and development costs for products to be sold under long-term supply arrangements shall be expensed as incurred. Design and development costs for molds, dies, and other tools that a supplier will own and that will be used in producing the products under a long-term supply arrangement shall be capitalized as part of the molds, dies, and other tools (subject to an impairment assessment under the Impairment or Disposal of Long-Lived Assets

Subsections of Subtopic 360-10) unless the design and development is for molds, dies, and other tools involving new technology, in which case, the costs shall be ~~expensed as incurred in~~ accounted for in accordance with Subtopic 730-10.

Amendment to Topic 605

28. Amend paragraph 605-35-25-40, with a link to transition paragraph 730-10-65-1, as follows:

605-35-25-40 Learning or start-up costs are sometimes incurred in connection with the performance of a contract or a group of contracts. In some circumstances, follow-on or future contracts for the same goods or services are anticipated. Such costs usually consist of labor, overhead, rework, or other special costs that must be incurred to complete the existing contract or contracts in progress and are distinguished from research and development costs. (Section 730-10-25 requires that certain research and development costs be charged to expense when incurred.) A direct relationship between such costs and the anticipated future contracts is often difficult to establish, and the receipt of future contracts often cannot reasonably be anticipated.

Master Glossary

29. Amend the Master Glossary, with a link to transition paragraph 730-10-65-1, as follows:

Contingent Consideration

Usually an obligation of the **acquirer** to transfer additional assets or **equity interests** to the former **owners** of an **acquiree** (or former owners of an asset or asset group) as part of the exchange for control of the acquiree (or an asset or asset group) if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Effective Date and Transition

30. Add paragraph 730-10-65-1 and its heading as follows:

> Transition Related to Accounting Standards Update No. 2009-XX, *Research and Development (Topic 730): Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition (A Consensus of the FASB Emerging Issues Task Force)*

730-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2009-XX, *Research and Development (Topic 730): Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition (A Consensus of the FASB Emerging Issues Task Force):*

a. The pending content that links to this paragraph shall be applied on a prospective basis for acquisitions of assets occurring in fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years.
b. Earlier application is prohibited.

Amendments to the XBRL Taxonomy

The following elements should be added to or modified in the XBRL taxonomy as a result of the amendments in this proposed Update. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk* and have been **bolded.** If an existing element was modified, it has been marked to reflect any changes.)

Standard Label†	**Definition**	**Codification Reference**
Capitalized Software Development Costs for Software Sold to Customers*	Unamortized costs incurred for development of computer software, which is to be sold, leased or otherwise marketed, after establishing technological feasibility through to the general release of the software products. Excludes capitalized costs of developing software for internal use. <u>Includes purchased computer software, regardless of whether technological feasibility is established at the time of purchase.</u>	985-20-55-13
Software and Software Development Costs [Member]*	Capitalized costs of purchased software applications and capitalized costs to develop software for sale or licensing, or for long-term internal use. <u>This includes software tools purchased during the application development stage.</u>	350-50-25-6A

†The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label[†]	**Definition**	**Codification Reference**
Significant Acquisitions and Disposals, Terms, Contingent Consideration Arrangement	For asset acquisitions that include a contingent consideration arrangement, in addition to the disclosures required by other specific authoritative guidance, the entity must disclose how the contingent consideration will be accounted for when the contingency is resolved and the consideration is paid or becomes payable.	805-50-50-5
Significant Acquisitions and Disposals, Acquisition Costs or Sale Proceeds*	The value of all consideration given or received by the Entity in the significant acquisition or disposal. For asset acquisitions, when contingent consideration is recognized (either initially when the assets are acquired or when the contingency is resolved and the consideration is paid or becomes available), such amount is included in the measurement of the cost of the acquired asset or group of assets.	805-50-30-2A