

## Software Revenue Recognition Policy (SOP 97-2)

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### SUMMARY

This policy provides guidance related to software revenue recognition. Software revenue recognition issues can be very complex and the body of technical literature covering this topic is constantly expanding.

SOP 97-2, *Software Revenue Recognition* provides guidance on when revenue should be recognized and in what amounts for licensing, selling, leasing, or otherwise marketing computer software. It does not apply, however, to revenue earned on products or services containing software that is incidental to the products or services as a whole.<sup>1</sup>

Software sale arrangements may involve several deliverables such as software product licenses, upgrades/enhancements, postcontract customer support (“PCS”), installation and other services. The revenue for these multiple elements should be recognized when the following four criteria are met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred
- The fee is fixed or determinable
- Collectibility is probable.

For multiple element arrangements, the total fee received from a sale should be allocated to the various elements based on vendor-specific objective evidence (“VSOE”) of fair value, regardless of any separate prices stated within the contract for each element. The allocated fee for each element is then recognized as revenue based on the nature of the specific item.

When sufficient VSOE does not exist, all revenue from the arrangement is deferred until the earlier of the point at which (a) such VSOE does exist, or (b) all elements of the arrangement have been delivered. Use of the “residual method” in situations where VSOE exists for *all* undelivered elements but does not exist for one or more of the delivered elements is permitted. Under the residual method, the undiscounted VSOE of fair value of the undelivered elements is deferred, and the difference (residual) between the total fee and the amount deferred for the undelivered elements is recognized as revenue for the delivered elements.

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<sup>1</sup> SOP 97-2 par .02

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