Case 10-11

Eye Vision Inc.

Eye Vision Inc. (Eye Vision) has been in the business of manufacturing medical devices for eye treatments for more than 20 years. Eye Vision enters into contractual arrangements to sell its equipment to large hospitals and universities throughout the United States. Eye Vision's contractual arrangements also offer an initial option to purchase a two-year separately priced maintenance agreement for the equipment. There has been a significant increase in sales during the first quarter because of a surge in interest in the Clear View Laser product.

Eye Vision has a December 31 fiscal year-end. In conjunction with the first quarter review of the revenue line item for Eye Vision, the audit senior (Jason Doolittle) completed the following procedures:

1. Reviewed the marketing brochure for Eye Vision's product offerings, which included a significant focus on the Clear View Laser.

2. Interviewed the vice president of sales.

3. Reviewed the client's memo supporting revenue recognition of its medical equipment sales of the Clear View Laser.

4. Performed an analytical test of Eye Vision's medical equipment sales based on the increase in units sold compared to the prior quarter.

5. Read one of the standardized sales agreements for the Clear View Laser.

The following is a summary of the key facts identified by the audit senior:

MEMO

To: Eye Vision Audit Working Papers
From: Jason Doolittle, audit senior
Subject: Contract Review
Date: March 31, 2010

Eye Vision continues to perform research and development regarding additional eye treatments that could be performed using the Clear View Laser. Eye Vision must receive additional FDA approval for any new treatment applications. With FDA approval, Eye Vision will offer, on a when-and-if available basis, new treatment applications for the Clear View Laser through software updates that will be available at no charge to customers who have purchased a maintenance agreement. Eye Vision has not provided any specific details to its customers regarding future treatment applications that are still under development.

On January 1, 2010, Eye Vision signed a contract with Holland Hospital to sell the Clear View Laser. In addition to this medical equipment, the contract includes an initial option to purchase a two-year separately priced maintenance agreement on the Clear View

Laser. The maintenance plan includes telephone support, repair or replacement of nonconforming parts, software updates, and bug fixes for the software. Holland Hospital has elected to purchase the maintenance agreement. Eye Vision will receive $1 million for the Clear View Laser and $200,000 up front for the two years of maintenance.

Eye Vision has never sold, nor does it offer to sell, the Clear View Laser without the embedded software because the software is necessary to perform the medical procedures for which the laser is intended.

The Eye Vision maintenance agreement is available only to purchasers of the Clear View Laser and has never been sold separately. There is not a general right of return for sales of the Clear View Laser.

Effective January 1, 2010, at the beginning of fiscal year 2010, Eye Vision has elected to early adopt ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (formerly EITF Issue No. 08-1, "Revenue Arrangements With Multiple Deliverables"), and ASU 2009-14, *Certain Revenue Arrangements That Include Software Elements* (formerly EITF Issue No. 09-3, "Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements"), for all new or materially modified revenue arrangements.

Required:

Answer the following questions, documenting any additional issues including the accounting literature identified to support recommendations and conclusions for resolving the issues.

1. Is Eye Vision's arrangement with Holland Hospital within the scope of ASC 985-605, *Software: Revenue Recognition?*

2. What are the deliverables in this arrangement?

3. On the basis of the responses to Questions 1 and 2, what are the units of accounting in this arrangement?

4. On the basis of the responses to Question 3, discuss the revenue recognition accounting literature that would be applied to each unit of accounting identified in this arrangement.