Technology Industry Accounting Guide
2023 Technology Industry Outlook

March 2023
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- Business Combinations
- Carve-Out Transactions
- Comparing IFRS Accounting Standards and U.S. GAAP
- Consolidation — Identifying a Controlling Financial Interest
- Contingencies, Loss Recoveries, and Guarantees
- Contracts on an Entity’s Own Equity
- Convertible Debt (Before Adoption of ASU 2020-06)
- Current Expected Credit Losses
- Debt
- Distinguishing Liabilities From Equity
- Earnings per Share
- Environmental Obligations and Asset Retirement Obligations
- Equity Method Investees — SEC Reporting Considerations
- Equity Method Investments and Joint Ventures
- Fair Value Measurements and Disclosures (Including the Fair Value Option)
- Foreign Currency Matters
- Guarantees and Collateralizations — SEC Reporting Considerations
- Hedge Accounting
- Impairments and Disposals of Long-Lived Assets and Discontinued Operations
- Income Taxes
- Initial Public Offerings
- Leases
- Noncontrolling Interests
- Non-GAAP Financial Measures and Metrics
- Revenue Recognition
- SEC Comment Letter Considerations, Including Industry Insights
- Segment Reporting
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- Statement of Cash Flows
- Transfers and Servicing of Financial Assets
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Preface

We are pleased to present the inaugural edition of Deloitte’s Technology Industry Accounting Guide (the “Guide”).

The technology industry ecosystem encompasses a wide array of entities, from enterprise software and software-as-a-service (SaaS) providers to hardware and semiconductor manufacturers. The technology industry has also experienced convergence with other types of businesses, creating subsectors such as fintech, health tech, energy tech, education tech, and auto tech, to name a few. Many entities have fueled the significant growth of the technology industry by embracing emerging technologies such as artificial intelligence (AI) and machine learning, everything as a service (XaaS) powered by the cloud, robotics, the Internet of Things (IoT), blockchain, and edge computing. Continuous innovation by technology entities produces novel business models while introducing potentially complex accounting and financial reporting matters.

Finance and accounting professionals in the technology industry face complex issues and must exercise significant judgment in applying existing rules to matters such as revenue recognition, software-related costs, acquisitions and divestitures, consolidation, stock-based compensation, leases, financial instruments, income taxes, digital assets, initial public offerings (IPOs), and disclosures of non-GAAP measures and metrics. To help technology entities work through some of the more difficult accounting and financial reporting issues related to these and other relevant topics, this Guide includes interpretive guidance, illustrative examples, and discussion of recent standard-setting developments (through February 28, 2023).

Appendix A lists the titles of standards and other literature we cited, and Appendix B defines the abbreviations we used.

We hope this Guide is helpful in navigating the various accounting and reporting challenges that technology entities face. We encourage clients to contact their Deloitte team for additional information and assistance.
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Chapter 1 — 2023 Technology Industry Outlook¹

The technology industry has not just weathered the pandemic-driven disruptions of the past few years but has flourished. The pandemic thrust many organizations into the future, accelerating digital transformation and changing work models dramatically. As supply networks struggled, Deloitte urged technology leaders to evaluate where and how manufacturing happens; to focus on improving transparency, flexibility, and resiliency of their supply chains; and to prepare proactively for future uncertainty and other systemic risks.² We recommended that technology entities ramp up innovation and transformation by doubling down on cloud and XaaS.³ We advised leaders to bolster their talent bench in critical capabilities such as AI, robotic process automation, and cybersecurity.⁴

While many leaders appear to have heeded the advice, in 2023 the technology industry will most likely continue to grapple with issues related to supply chains, the workforce, and innovation — now exacerbated by considerable macroeconomic and global uncertainties. A recent Deloitte survey revealed technology decision makers’ top strategic concerns for the next two to three years: macroeconomic uncertainty topped the rankings, followed by workforce issues and then the competitive landscape.⁵ Geopolitical and regulatory uncertainties also worry the respondents, though not as intensely.

While technology stocks outperformed during the pandemic pressures of 2020–2021, the sector led considerable stock market declines in 2022.⁶ A major challenge now for technology entities is how to weather a potential economic slowdown by trimming costs, increasing efficiency, and growing revenues. At the same time, it is likely that many of them are looking for ways to remain innovative and build a strong, competitive position for the future.

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¹ Adapted from the Executive Summary of Deloitte’s 2023 Technology Industry Outlook.
³ See footnote 2.
⁵ In late 2022, Deloitte surveyed over 100 technology decision makers; 20 percent of respondents were in the C-suite, 30 percent were vice presidents/senior vice presidents, 30 percent were directors/senior directors, 11 percent were managers/senior managers, and 10 percent were heads of business units/departments. Respectively, 83 percent, 72 percent, and 67 percent of surveyed technology leaders ranked macroeconomic uncertainty, workforce issues, and the competitive landscape within the top three strategic concerns for their companies over the next two to three years.
Some of the specific themes we see playing a critical role in 2023 and beyond include:

- **Leading through macroeconomic uncertainty** — Beleaguered by softening consumer spending, lower product demand, and falling market capitalizations, technology entities’ C-suites are feeling the urgency to increase margins and grow revenues. Beyond workforce adjustments, approaches may include making business processes more efficient, relying more heavily on intelligent automation, reducing technology debt by implementing best practices for software development, modernizing legacy architectures by migrating to the cloud and XaaS, and considering strategic mergers and acquisitions (M&As).

- **Navigating global uncertainties** — As technology entities confront heightened global challenges — including geopolitical tensions, supply-chain volatility, raw material shortages, semiconductor supply concerns, and new regulations — they should work to mitigate risks and build more resilient systems. Leaders should think strategically about their choices of partners, where they are located, and where and how production takes place.

- **Transforming other industries through technology** — On a hunt for new revenue opportunities, the technology sector is extending its reach into other industries, using digital advancements to support innovation and transformation. A primary example of this convergence is technology and health care. Technology entities are also seeking to improve efficiency and spur innovation in other areas that are ripe for transformation, including real estate, manufacturing, and retail.

- **Adapting to new regulations** — Climate change and social impacts are having an increasing effect on the operations of technology entities. At the same time, governments and shareholders around the world are pushing entities to increase transparency related to environmental footprints and tax payments and to commit to reducing carbon emissions. New and proposed regulations are expected to require updates to business management software tools, enabling entities to achieve real-time visibility and to grant authorities access to data they will need for increasingly complex compliance processes.

Economic headwinds seem to be gathering for business in general and for the technology industry specifically. But there are many regulatory incentives that may spur innovation and growth in 2023 and beyond. To survive and thrive, technology entities should rededicate their efforts to improving supply operations, modernizing infrastructure, and leveraging growth opportunities.

For a detailed discussion about the opportunities and challenges facing technology entities, see the full version of Deloitte’s *2023 Technology Industry Outlook*. 
Appendix A — Titles of Standards and Other Literature

**AICPA Literature**

**Accounting and Valuation Guide**
*Valuation of Privately-Held-Company Equity Securities Issued as Compensation*

**Audit and Accounting Guide**
*Revenue Recognition*

**Practice Aid**
*Accounting for and Auditing of Digital Assets*

**FASB Literature**

**ASC Topics**

ASC 205, *Presentation of Financial Statements*

ASC 210, *Balance Sheet*

ASC 235, *Notes to Financial Statements*

ASC 260, *Earnings per Share*

ASC 270, *Interim Reporting*

ASC 275, *Risks and Uncertainties*

ASC 310, *Receivables*

ASC 320, *Investments — Debt Securities*

ASC 321, *Investments — Equity Securities*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 325, *Investments — Other*

ASC 326, *Financial Instruments — Credit Losses*

ASC 330, *Inventory*

ASC 340, *Other Assets and Deferred Costs*

ASC 350, *Intangibles — Goodwill and Other*
ASC 360, Property, Plant, and Equipment
ASC 405, Liabilities
ASC 450, Contingencies
ASC 460, Guarantees
ASC 470, Debt
ASC 480, Distinguishing Liabilities From Equity
ASC 505, Equity
ASC 605, Revenue Recognition
ASC 606, Revenue From Contracts With Customers
ASC 610, Other Income
ASC 705, Cost of Sales and Services
ASC 710, Compensation — General
ASC 712, Compensation — Nonretirement Postemployment Benefits
ASC 715, Compensation — Retirement Benefits
ASC 718, Compensation — Stock Compensation
ASC 720, Other Expenses
ASC 730, Research and Development
ASC 740, Income Taxes
ASC 805, Business Combinations
ASC 808, Collaborative Arrangements
ASC 810, Consolidation
ASC 815, Derivatives and Hedging
ASC 820, Fair Value Measurement
ASC 825, Financial Instruments
ASC 840, Leases
ASC 842, Leases
ASC 845, Nonmonetary Transactions
ASC 848, Reference Rate Reform
ASC 860, Transfers and Servicing
ASC 940, Financial Services — Brokers and Dealers
ASC 944, Financial Services — Insurance
ASC 946, Financial Services — Investment Companies
ASC 985, Software
ASUs

ASU 2014-01, Investments — Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects — a consensus of the FASB Emerging Issues Task Force

ASU 2014-09, Revenue From Contracts With Customers (Topic 606)

ASU 2016-08, Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)

ASU 2016-10, Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing

ASU 2016-12, Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients

ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customers

ASU 2018-07, Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting

ASU 2018-11, Leases (Topic 842): Targeted Improvements


ASU 2019-08, Compensation — Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Codification Improvements — Share-Based Consideration Payable to a Customer

ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

ASU 2020-06, Debt — Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity

ASU 2021-02, Franchisors — Revenue From Contracts With Customers (Subtopic 952-606): Practical Expedient

ASU 2021-04, Earnings per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options — a consensus of the FASB Emerging Issues Task Force

ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities From Contracts With Customers

ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

Concepts Statements

No. 5, Recognition and Measurement in Financial Statements of Business Enterprises

No. 8, Conceptual Framework for Financial Reporting — Chapter 4, Elements of Financial Statements
Proposed ASU
No. 2022-ED300, Business Combinations — Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement

IRC
Section 382, “Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change”

IFRS Literature
IFRS 15, Revenue From Contracts With Customers
IAS 20, Accounting for Government Grants and Disclosure of Government Assistance

SEC Literature
FRM
Topic 7, “Related Party Matters”
Topic 10, “Emerging Growth Companies”

Interpretive Release
No. 33-10751, Commission Guidance on Management’s Discussion and Analysis of Financial Condition and Results of Operations

Regulation S-K
Item 10(e), “General; Use of Non-GAAP Financial Measures in Commission Filings”
Item 103, “Business; Legal Proceedings”
Item 303, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”

Regulation S-X
Rule 3-13, “Filing of Other Financial Statements in Certain Cases”
Rule 5-03, “Statements of Comprehensive Income”
Rule 11-01, “Presentation Requirements”

SAB Topics
No. 1, “Financial Statements”
  • No. 1.B, “Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity”
  • No. 1.M, “Materiality”
No. 5.Y, “Miscellaneous Accounting; Accounting and Disclosures Relating to Loss Contingencies”
Appendix A — Titles of Standards and Other Literature

**Securities Exchange Act of 1934**
Section 13, “Periodical and Other Reports”
Section 15(d), “Registration and Regulation of Brokers and Dealers; Supplementary and Periodic Information”

**Superseded Literature**

**AICPA Technical Practice Aid**
Section 5100.68, “Revenue Recognition: Fair Value of PCS in Perpetual and Multi-Year Time-Based Licenses and Software Revenue Recognition”

**EITF Abstract**
Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease*

**FASB Concepts Statement**
No. 6, *Elements of Financial Statements* — a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)

**Other Literature**

**FASB TRG Agenda Papers**
TRG Agenda Paper 23, *Incremental Costs of Obtaining a Contract*
TRG Agenda Paper 41, *Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation*
TRG Agenda Paper 44, *July 2015 Meeting — Summary of Issues Discussed and Next Steps*
TRG Agenda Paper 57, *Capitalization and Amortization of Incremental Costs of Obtaining a Contract*
TRG Agenda Paper 59, *Payments to Customers*
TRG Agenda Paper 60, *November 2016 Meeting — Summary of Issues Discussed and Next Steps*
# Appendix B — Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AI</td>
<td>artificial intelligence</td>
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<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>ASC</td>
<td>FASB Accounting Standards Codification</td>
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<tr>
<td>ASR</td>
<td>accelerated share repurchase</td>
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<tr>
<td>ASU</td>
<td>FASB Accounting Standards Update</td>
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<td>BC</td>
<td>Basis for Conclusions</td>
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<td>BCF</td>
<td>beneficial conversion feature</td>
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<td>C&amp;DI</td>
<td>SEC Compliance and Disclosure Interpretation</td>
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<td>CAM</td>
<td>critical audit matter</td>
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<td>CAQ</td>
<td>Center for Audit Quality</td>
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<td>CCF</td>
<td>cash conversion feature</td>
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<td>CECL</td>
<td>current expected credit loss</td>
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<td>CIMA</td>
<td>Chartered Institute of Management Accountants</td>
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<td>CPM</td>
<td>cost per mille</td>
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<td>CRM</td>
<td>customer relationship management</td>
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<tr>
<td>DLOM</td>
<td>discount for lack of marketability</td>
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<tr>
<td>DTA</td>
<td>deferred tax asset</td>
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<tr>
<td>DTL</td>
<td>deferred tax liability</td>
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<tr>
<td>EBITDA</td>
<td>earnings before interest, taxes, depreciation, and amortization</td>
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<td>EDGAR</td>
<td>SEC’s Electronic Data Gathering, Analysis, and Retrieval System</td>
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<td>EGC</td>
<td>emerging growth company</td>
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<td>EITF</td>
<td>FASB Emerging Issues Task Force</td>
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<td>EPS</td>
<td>earnings per share</td>
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<td>ERP</td>
<td>enterprise resource planning</td>
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<tr>
<td>ex-TAC</td>
<td>excluding traffic acquisition costs</td>
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<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>FAST Act</td>
<td>Fixing America’s Surface Transportation Act</td>
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<tr>
<td>FIFO</td>
<td>first in, first out</td>
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<tr>
<td>FinREC</td>
<td>AICPA Financial Reporting Executive Committee</td>
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<tr>
<td>GAAP</td>
<td>generally accepted accounting principles</td>
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<td>GAAS</td>
<td>generally accepted auditing standards</td>
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<tr>
<td>IAS</td>
<td>International Accounting Standard</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<td>IC</td>
<td>independent contractor</td>
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<td>ICFR</td>
<td>internal control over financial reporting</td>
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<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<td>IoT</td>
<td>Internet of Things</td>
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<td>IP</td>
<td>intellectual property</td>
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<td>IPO</td>
<td>initial public offering</td>
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<td>IPR&amp;D</td>
<td>in-process research and development</td>
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<tr>
<td>IRC</td>
<td>Internal Revenue Code</td>
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<td>IT</td>
<td>information technology</td>
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<td>Abbreviation</td>
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<td>JOBS Act</td>
<td>Jumpstart Our Business Startups Act</td>
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<td>KPI</td>
<td>key performance indicator</td>
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<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
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<td>LIFO</td>
<td>last in, first out</td>
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<tr>
<td>LLC</td>
<td>limited liability company</td>
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<tr>
<td>M&amp;A</td>
<td>merger and acquisition</td>
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<tr>
<td>MD&amp;A</td>
<td>Management’s Discussion and Analysis</td>
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<td>NFT</td>
<td>nonfungible token</td>
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<td>NOL</td>
<td>net operating loss</td>
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<tr>
<td>OCA</td>
<td>SEC’s Office of the Chief Accountant</td>
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<td>OEM</td>
<td>original equipment manufacturer</td>
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<td>PBE</td>
<td>public business entity</td>
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<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
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<tr>
<td>PCS</td>
<td>postcontract customer support</td>
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<tr>
<td>Q&amp;A</td>
<td>question and answer</td>
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<td>R&amp;D</td>
<td>research and development</td>
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<tr>
<td>RMN</td>
<td>retail media network</td>
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<td>ROU</td>
<td>right-of-use</td>
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<th>Abbreviation</th>
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<tbody>
<tr>
<td>S&amp;P 500</td>
<td>Standard &amp; Poor’s 500 stock market index</td>
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<td>SaaS</td>
<td>software as a service</td>
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<td>SAB</td>
<td>SEC Staff Accounting Bulletin</td>
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<tr>
<td>Sarbanes-Oxley</td>
<td>Sarbanes-Oxley Act of 2002</td>
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<tr>
<td>SEC</td>
<td>U.S. Securities and Exchange Commission</td>
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<td>Securities Act</td>
<td>Securities Act of 1933</td>
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<tr>
<td>SG&amp;A</td>
<td>selling, general, and administrative</td>
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<td>SKU</td>
<td>separate stock-keeping unit</td>
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<td>SPAC</td>
<td>special-purpose acquisition company</td>
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<tr>
<td>SRC</td>
<td>smaller reporting company</td>
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<tr>
<td>SSP</td>
<td>stand-alone selling price</td>
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<tr>
<td>TMT</td>
<td>Technology, Media, &amp; Telecommunications</td>
</tr>
<tr>
<td>TPA</td>
<td>AICPA Technical Practice Aid</td>
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<tr>
<td>TRG</td>
<td>FASB/IASB transition resource group for revenue recognition</td>
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<tr>
<td>VIE</td>
<td>variable interest entity</td>
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<tr>
<td>XaaS</td>
<td>everything as a service</td>
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