

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB

SUBJECT

FASB ISSUES GUIDANCE FOR ACCOUNTING FOR FEES PAID IN A CLOUD COMPUTING ARRANGEMENT

SUMMARY

The FASB has issued an ASU to clarify that if a cloud computing arrangement contains a software license, a customer should account for this element consistent with the acquisition of other software licenses that are capitalized. Otherwise, a customer should account for the arrangement as a service contract, which would usually be expensed. The new standard takes effect in 2016 for public companies and is available [here](#).

DETAILS:

Main Provisions:

ASC Subtopic 350-40¹ provides guidance on accounting for the cost of computer software developed or obtained for internal use. ASU 2015-05² amends Subtopic 350-40 to clarify whether a hosting arrangement (e.g., cloud computing, software as a service, etc.) contains a software license, and thus, whether it is to be accounted for by the customer similarly to other internal-use software.

Specifically, the amendments revise the scope of Subtopic 350-40 to include internal-use software accessed through a hosting arrangement only if both of the following criteria are met:

1. The customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty. There is no significant penalty if the customer has the ability to take delivery of the software without incurring significant cost and the ability to use the software separately without significant loss of utility or value.
2. It is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

If both of the above criteria are present in a hosting arrangement, then the arrangement contains a software license and the customer should account for that element in accordance with Subtopic 350-40 (i.e., generally capitalize



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¹ *Intangibles—Goodwill and Other—Internal-Use Software*

² *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*

and subsequently amortize the cost of the license). If both of the above criteria are not present, the customer should account for the arrangement as a service contract (i.e., expense fees as incurred).

The Board noted in the Basis for Conclusions that because the amendments supersede paragraph 350-40-25-16, some entities' accounting for acquired software licenses will change. At present, because of the guidance in paragraph 350-40-25-16, some entities analogize to operating lease guidance in accounting for some software licenses (that is, even when the entity obtains a software license, it accounts for the arrangement as executory in nature). As a result of the amendments, all software licenses in the scope of Subtopic 350-40 will be accounted for in the same manner, consistent with the accounting for other licenses of intangible assets. In general, we believe the majority of entities in the scope of the new standard will continue to expense cloud computing fees, consistent with current practice.

Effective Date and Transition:

The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments are effective for all other entities for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. Certain transition disclosures are required depending on the method of transition.

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