

Accounting for cloud computing arrangements

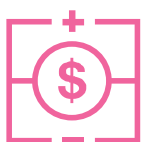
Talking points for episode 135



These talking points reflect on our learnings over the past year following the IFRIC agenda decisions in March 2019 ([Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud \(IAS 38 Intangible Assets\)](#)) and March 2021 ([Configuration or Customisation Costs in a Cloud Computing Arrangement \(IAS 38 Intangible Assets\)](#)).

To have a software asset, whether an intangible asset or a lease asset, the customer has to be able to **direct the use** of the software and enjoy **substantially all of the economic benefits**. This assessment becomes judgemental when the software vendor hosts the software. To meet the criteria:

- the customer would usually need to have an **exclusive use of a software copy**; and
- the customer needs to have the **right to direct the use** of the software – for example, making decisions about on **which hardware (or infrastructure)** the software will run, and **how and when** to update or reconfigure the software.



The right to direct the use of the software would be **substantive** if the entity can take possession of the software **without significant penalty**, and it is feasible for the entity to run the software on its own or by contracting with a separate hosting provider. A significant penalty could be **either prohibitive costs** to take delivery of the software, or a **significant diminution** in utility or value of the software if it is used separately.

The accounting for Software as a Service ('SaaS') **implementation costs** depends on the nature of the activities. Implementation costs of SaaS arrangements that don't represent an identifiable intangible asset might represent a **prepayment asset**. The entity should assess if the activities giving rise to the costs are **distinct** from the SaaS arrangement by leveraging the guidance under IFRS 15 from the software vendor's perspective. Costs of distinct activities have to be expensed as incurred. When assessing the contract under IFRS 15, entities should be mindful of the **difference in terminology** between IFRS 15 and an IT perspective (for example, the interpretation of integration and customisation).



Where the customer has either full ownership of additional code (because it has developed this code using its own IT staff) or a licence from a third party developer (meaning that it can direct the use of a copy of the additional code), the costs would usually be capitalised as an intangible asset.

Where the software vendor has written the additional code, there is judgement in determining whether the SaaS provider is developing a separate intangible asset for the entity. To recognise an intangible asset, the customer would need to be able to **direct the use of the additional code**, even if it cannot direct the use of the underlying SaaS. This may be demonstrated if the customer can take **possession** of the additional code. If a customer cannot take possession, but can **make decisions** on the maintenance, modification and upgrade of the additional code, including when and who can perform these works, the additional code would generally be considered a separate intangible asset from the customer's perspective.



These principles would equally apply to Platform as a Service ('PaaS') arrangements.

For further information, refer to PwC's In depth [INT2021-09](#).



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2021-01-12_RITM4431934