

# ASPE

## At a Glance

Section AcG 20 - Customer's  
Accounting for Cloud Computing  
Arrangements

# AcG-20 - Customer's Accounting for Cloud Computing Arrangements

Effective Date  
Fiscal years beginning on or after January 1, 2024<sup>1</sup>

<b>Cloud Computing Arrangement</b>	<b>Scope</b>
<ul style="list-style-type: none"> <li>• <b>Cloud computing</b> is the on-demand delivery of <b>computing resources</b> over the internet or a private network.</li> <li>• <b>Computing resources</b> include software, servers, data storage, network capabilities and more.</li> <li>• <b>Delivery models</b> describe the <b>combination of computing resources</b> a vendor provides.</li> <li>• Common <b>types of delivery models</b>: Software as a Service (“SaaS”), Platform as a Service (“PaaS”), Infrastructure as a Service (“IaaS”).</li> <li>• The way <b>computing resources</b> are delivered is referred to as the <b>deployment model</b>. A <b>deployment model</b> is the computing environment in which the <b>computing resources reside</b>, such as cloud-based, on-premises or hybrid environment.</li> <li>• The purchase of a software license has started to shift to a <b>subscription fee</b> to access the software. The subscription fee enables the customer to access the software residing on a vendor’s cloud environment (which provides the infrastructure to support running the software, including providing the latest software updates) during the arrangement term.</li> <li>• An enterprise may enter into a multiple-element arrangement with a vendor that includes a <b>software element, hardware element &amp; implementation activities</b></li> </ul>	<ul style="list-style-type: none"> <li>• Applies to accounting for a customer’s expenditures in a cloud computing arrangement and determining whether a software intangible asset exists in the arrangement.</li> <li>• Expenditures on tangible elements of the arrangement such as property, plant and equipment and right to use a tangible asset are dealt with in S3061 Property, Plant and Equipment, &amp; S3065 Leases.</li> </ul>
<b>Recognition and Measurement</b>	
<ul style="list-style-type: none"> <li>• Arrangement consideration is allocated at the inception of the cloud computing arrangement to all significant separable elements<sup>2</sup>.</li> <li>• An enterprise determines a method for allocating arrangement consideration on a rational and consistent basis for purposes of accounting for when it receives the goods or services.</li> <li>• A <b>policy choice</b> exists to apply the simplification approach OR perform an analysis to determine if a software element is a software intangible asset or a software service<sup>3</sup>.</li> </ul>	
<b>Simplification Approach</b>	<b>Determination of Software Intangible Asset or Software Service</b>
<ul style="list-style-type: none"> <li>• An enterprise is permitted to apply the simplification approach to account for expenditures in a cloud computing arrangement within the scope of this Guideline.</li> <li>• Expenditures in the arrangement are treated as the supply of services; expenditures related to elements in the cloud computing arrangement are recorded as an expense as incurred.</li> <li>• The enterprise recognizes the expenditure as an expense when it receives the services.</li> <li>• When payment for the delivery of the services has been made in advance of the enterprise receiving the services, the prepayment may be recognized as an asset.</li> <li>• This accounting policy choice must be applied consistently to expenditures in all cloud computing arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• If an enterprise does not apply the simplification approach, it determines whether the software elements are recognized as a software intangible asset or software service.</li> <li>• A software element in the arrangement is recognized as a software intangible asset if it meets the definition of an intangible asset and the recognition criteria in accordance with S3064 <i>Goodwill and Intangible Assets</i><sup>4</sup>.</li> <li>• The definition of intangible asset requires that the software element be identifiable, be controlled by the enterprise and have future economic benefits that would flow to the enterprise.</li> <li>• A software element normally meets identifiable criterion because it would arise from contractual rights.</li> <li>• A software element normally meets future economic benefits criterion because of the benefits that flow to the enterprise from use of the software.</li> <li>• An enterprise controls a software element if it has power to obtain future economic benefits and restrict access of others to those benefits. A software element is controlled by the enterprise if it has the contractual right to obtain the software without significant penalty and it is feasible to run the software on its own or a third party’s infrastructure.</li> <li>• “Without significant penalty” contains two distinct concepts:             <ul style="list-style-type: none"> <li>• The ability to take delivery of software without incurring significant cost; and</li> <li>• The ability to use the software separately without significant decrease in utility or value.</li> </ul> </li> <li>• Other additional factors that may indicate control, include but are not limited to:             <ul style="list-style-type: none"> <li>• Exclusive rights to use the software or ownership of the intellectual property for customized software.</li> <li>• Decision-making rights to change how and for what purpose the software is used throughout the period of use.</li> </ul> </li> <li>• A software element in the arrangement that <b>does not</b> meet the definition of an intangible asset and the recognition criteria in accordance with S3064 is a <b>software service</b> and is expensed as incurred.</li> </ul>

<sup>1</sup> Earlier application is permitted.

<sup>2</sup> Tangible elements of the arrangement such as hardware are recorded in accordance with S3061 *Property, Plant and Equipment*, and S3065 *Leases*, refer to our publications “*ASPE At a Glance - Property, Plant and Equipment*” and “*ASPE At a Glance - Leases*” for more guidance.

<sup>3</sup> AcG-20 contains a decision tree that enterprises may find useful in determining which parts of the guidelines apply to their situation.

<sup>4</sup> Refer to our publication “*ASPE At a Glance - Intangible Assets*” for more guidance.

## Recognition and Measurement (Continued)

### Implementation Activities

- An enterprise may incur expenditures to implement the software in the arrangement.
- Examples of implementation activities include, but are not limited to: integration; customization or coding; configuration; data conversion; testing; training; and business process reengineering etc.

#### Software Intangible Asset

- An enterprise that recognizes a software intangible asset must capitalize as part of the cost of the asset implementation activities that are directly attributable to preparing the asset for its intended use in accordance with S3064<sup>4</sup>.
- Subsequent measurement is accounted for in accordance with S3064, which involves amortization and testing for impairment<sup>4</sup>.
- Expenditures on implementation activities may give rise to a separate intangible asset, which would be accounted for in accordance with S3064<sup>4</sup> including the enterprises policy choice under paragraph 3064.40<sup>5</sup>.
- Expenditures not directly attributable to preparing the software intangible asset for intended use are recognized as an expense as incurred, such as research and training activities.

#### Software Service

- When a software service is recognized, an enterprise makes an accounting policy choice that must be applied consistently to either:
  - Expense the expenditures on implementation activities as incurred, other than expenditures that give rise to a separate intangible asset which are accounted for in accordance with S3064<sup>4</sup>; OR
  - Capitalize the expenditures on implementation activities that are directly attributable to preparing the software service for its intended use as an asset.
- Expenditures on capitalized implementation activities are expensed using a straight-line method over the expected period of access to the software service<sup>6</sup>, unless there is evidence another method better reflects the pattern in which the enterprise expects to benefit from accessing the software.
- Expenditures not directly attributable to preparing the software service for intended use are recognized as an expense as incurred, such as research and training activities.
- Expenditures on implementation activities capitalized are tested for impairment in accordance with provisions in S3063 *Impairment of Long-lived Assets*<sup>7, 8</sup>.

### Betterments

- An enterprise may incur subsequent expenditures to enhance the service potential of software after initial implementation of a software element.
- Service potential may be enhanced when there is an increase in the previously assessed service capacity, an extension of the useful life or the expected period of access to the software service, or an improvement in the quality of output.
- Activities performed to maintain expected service capacity are maintenance activities.

#### Software Intangible Asset

- Expenditures that are directly attributable to enhancing the service potential of software intangible asset are included in carrying amount of the asset.
- Maintenance activities are expensed as incurred.

#### Software Service

- Expenditures that are directly attributable to enhancing the service potential of software service are included in carrying amount of any capitalized expenditures on implementation.
- Maintenance activities are expensed as incurred.

<sup>4</sup> Refer to our publication “ASPE At a Glance - Intangible Assets” for more guidance.

<sup>5</sup> S3064.40 provides a policy choice on internally generated intangible assets to either expense the expenditures as incurred or capitalize the expenditures as an intangible asset. Refer to our publication “ASPE At a Glance - Intangible Assets” for more detail.

<sup>6</sup> Refer to paragraph AcG-20.26 for further guidance on determining the expected period of access.

<sup>7</sup> Refer to our publication “ASPE At a Glance - Impairment of Long-lived Assets & Goodwill” for more guidance.

<sup>8</sup> Not-for-Profit Organizations (NPOs) test expenditures for impairment in accordance with the requirements of Section 4434, *Intangible Assets Held by NPOs*. Refer to our publication “ASNPO At a Glance - Intangible Assets Held by NPOs” for more guidance.



## Presentation and Disclosure

### Simplification Approach

- Disclose that the simplification approach has been applied.
- Disclose amount expensed for period, including caption in the income statement in which the expense is included.
- Disclose information in accordance with Section 3280, *Contractual Obligations*, regarding commitments to make expenditures on a cloud computing arrangement.

### Software Intangible Asset

- Present a software intangible asset, including any directly attributable expenditures on implementation, within the intangible assets line item on the balance sheet.
- Disclose in accordance with the requirements of paragraphs .91-.92 and .94 in Section 3064.
- Disclose information in accordance with Section 3280, *Contractual Obligations*, regarding commitments to make expenditures on a cloud computing arrangement.

### Software Service

- Present any capitalized expenditures on implementation as a separate line item on the balance sheet, classified as long term, unless at the inception of the cloud computing arrangement the expected period of access is within one year from the date of the balance sheet, or the normal operating cycle when that is longer than a year.
- Present amortization cost on capitalized implementation expenditures in the same line in the income statement as the expense for subscription fees for the software service.
- Disclose software service amounts expensed for the period including caption in the income statement in which the expense is included.
- Disclose the policy followed to account for expenditures that are directly attributable to implementing the software service.
- Disclose the net carrying amount of any directly attributable capitalized expenditures on implementation and the method used to expense the capitalized amount, including expected period of access to the software.
- Disclose impairment loss amount including the caption in the income statement in which the loss is included and the facts and circumstances leading to the impairment.
- Disclose information in accordance with Section 3280, *Contractual Obligations*, regarding commitments to make expenditures on a cloud computing arrangement.

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