

FASB Adds Project to EITF's Agenda on Implementation Costs Related to Cloud Computing Arrangements

At its meeting on May 10, 2017, the FASB voted to add to the EITF's agenda a narrow-scope project on a customer's accounting for implementation costs incurred in a cloud computing arrangement that is not within the scope of ASC 350-40.¹

Background

In April 2015, the FASB issued [ASU 2015-05](#),² which clarifies the circumstances under which a customer in a cloud computing arrangement would account for the arrangement as a license of internal-use software under ASC 350-40. The ASU provides guidance on whether a cloud computing arrangement contains a software license or is considered a service contract and thus not within the scope of ASC 350-40. ASC 350-40 addresses the accounting for implementation costs for software licenses. The Board's May 10, 2017, meeting [handout](#) cited the current practice issue, noting the following:

Some stakeholders have stated that GAAP is unclear about the accounting for implementation costs for a cloud computing arrangement for which there is not a software license. Implementation costs include setup and other upfront fees to get the arrangement ready for use. Other implementation costs can include training, creating or installing an interface, reconfiguring existing systems, and reformatting data. Entities have looked at different areas of the Codification for guidance on how to account for implementation costs incurred in a cloud computing arrangement that is considered a service contract because there is currently no explicit guidance on them.

At the FASB's November 16, 2016, meeting on agenda prioritization, the FASB staff presented two alternatives for addressing implementation costs associated with cloud computing arrangements that are considered service contracts:

- *Alternative A* — Expense implementation costs as incurred.
- *Alternative B* — Recognize an asset or an expense when incurred on the basis of existing guidance in ASC 340, ASC 350-40, and ASC 720-45.

Further, the Board asked the EITF chairman to assemble a working group to gather more information on the topic to help the Board better understand the scope of a potential project.

Decision

At the May 10, 2017, meeting, the FASB staff discussed feedback received from the EITF's working group and other stakeholders, which included recommendations that the Board (1) add a narrow-scope project to either the Board's or the EITF's agenda and (2) further develop the alternatives discussed at the November 2016 Board meeting. The Board noted there may be challenges related to limiting the scope of the project to cloud computing arrangements that are considered service contracts. In addition, the Board indicated that such a project could ultimately be expanded to holistically address service

¹ For titles of FASB Accounting Standards Codification (ASC or the "Codification") references, see Deloitte's ["Titles of Topics and Subtopics in the FASB Accounting Standards Codification."](#)

² FASB Accounting Standards Update (ASU) No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*.

contracts. However, the Board acknowledged that the accounting for implementation costs in a cloud computing arrangement is an emerging and prevalent issue, which should be added to the EITF's agenda.

The Board did not make any tentative decisions on the alternatives presented by the FASB staff.

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