Accounting for and Disclosure of Software Costs

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Scope of Current Software Costs Guidance

Scope—Software Costs Guidance

- Costs incurred to develop or purchase software that is **solely for entity's internal use**
- Costs incurred to develop a **hosting arrangement platform**
- Costs incurred by a customer to **implement a CCA**

Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software

- Costs incurred to develop software to be sold or licensed to customers
- Costs incurred to develop software used in a **hosting arrangement** in which the **customer can take possession**

Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed
Internal-Use Software (Subtopic 350-40)

**Preliminary Project Stage**
- Costs expensed as incurred
  - Conceptual formulation of alternatives
  - Evaluation of alternatives
  - Determination of existence of needed technology
  - Final selection of alternatives

**Application Development Stage**
- Costs capitalized
  - Design of chosen path, including software configuration and software interfaces
  - Coding
  - Installation to hardware
  - Testing, including parallel processing phase

**Post-Implementation / Operation Stage**
- Expense costs as incurred and begin subsequent measurement
  - Training
  - Application maintenance
External-Use Software (Subtopic 985-20)

- Expense as incurred
- Capitalize eligible costs
- Expense maintenance and support
- Begin subsequent measurement

**Technological Feasibility** means completion of either:
- A detailed program design
- A working model
Feedback on Current Guidance

Software development has evolved.

Current guidance and outcomes are unintuitive.

Diversity in practice exists.

There is a lack of transparency into a company’s software costs.
Project Scope and Objectives

Project Scope

- Recognition, measurement, presentation, and disclosure of costs to internally develop or acquire software, which encompasses all of the software costs currently subject to the guidance in Subtopics 350-40 and 985-20

Project Objectives

- To modernize the accounting for software costs
- To enhance the transparency about an entity’s software costs
Project Timeline

2022
- Educational Board meeting on software costs on April 13, 2022
- Board added the accounting for and disclosure of software costs project to the technical agenda on June 22, 2022

2023
- Board decided on January 18, 2023, to direct the staff to further research and analyze the initial development cost and the dual model
- Board directed the staff on April 5, 2023, to continue its research on the single model and provided direction for elements of the model
- Board to continue discussions in September 2023

Stakeholder outreach, including investors and other allocators of capital
Models Considered by the Board

- **Single models**
  - Initial development cost model
  - Ongoing development cost model*
  - Expense all model*

- **Dual models**
  - Commercial software
  - External-facing software
  - Monetized software
  - R&D

* The Board decided to no longer pursue these models on January 18, 2023.
** The Board decided to no longer pursue a dual model on April 5, 2023.
Current Working Model

All direct software development costs

Capitalized from the point at which it is probable that the software project will be completed until the software project is substantially complete and placed into service.

Various elements of the working model continue to be discussed with the Board, are subject to change, and may be included in a different form or omitted from any future proposed Accounting Standards Update.
In September 2023, the Board will discuss the following key areas of the model: