



Crowe

Software as a Service (SAAS)

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▲ SAAS - The issue

IFRIC Agenda Decision - Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets) from 1 January 2021.

The Agenda Decision requires management to capitalize elements of expenditure that meet the definition of an Intangible Asset as defined by AASB 138 Intangible Assets and recognize any additional amounts as an expense as the entity benefits from the expenditure either by applying AASB 138 or applying another accounting standard.

This is not a change to any accounting standard – simply a clarification of current requirements



Practicality

- SAAS Agreements are not intangible assets – you are paying for the right to access the vendors system.
- Configuration and development costs incurred to make **your** systems compatible with the vendors **may** result in an intangible asset.

.....key point if its your asset chance to capitalize if it is the vendors, need to expense.....

Guidance

Implementation activities	Accounting treatment
<ul style="list-style-type: none">• Pre-implementation research activities: Preparation of proof of concept, evaluation and selection of a provider.• Modifications to current systems: Internal and external costs incurred, to modify provider offerings or develop bridging modules to existing systems or bespoke additional capability.• Configuration: set-up current IT environment, e.g. systems or network, for specific needs or new capability to enable the use of SaaS.• Staff costs: Payroll and other employee related costs for staff who spend time on and are directly associated with the project. This may include testing during implementation phase, user-acceptance testing, recruitment costs for staff recruited specifically to develop or test the software, travel costs where these are directly attributable to developing or testing the software.	<ul style="list-style-type: none">• Expense, as there is no specific future benefit at this stage.• Capitalise, where code or additional capability is developed internally for which the provider does not obtain IP rights, and there are future economic benefits.• Capitalise, where material modifications and incremental capability is being added, and there are future economic benefits.• Capitalise, as these are directly attributable costs of preparing the asset for its intended use and there are future economic benefits.• Expense, where costs incurred relate to staff training during implementation phase.



Guidance

Implementation activities	Accounting treatment
<ul style="list-style-type: none">• Data conversion activities: Purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system.• Data conversion software: Purchase or development of data conversion software to perform any of the above tasks identified above.• General: Administration and other general overhead costs.• Post-implementation activities: costs may include:<ul style="list-style-type: none">- Staff training on new software;- Development of user manuals;- Post-implementation review; and- Advertising and promotional activities.	<ul style="list-style-type: none">• Expense, as there is no future benefit obtained in migration to a system that is not owned by the agency.• Capitalise, where there is contractual right to take possession of software and software can be run on entity's own hardware or contract with another party unrelated to cloud provider, and there are future economic benefits (e.g. the software will be used again).• Expense, as there is no future benefit obtained.• Expense, as there is no future benefit obtained.



Questions