A Closer Look

Software-as-a-Service arrangements—Accounting changes are the result of an era of digital transformation

Contents

There has been an evolution in the technological architecture of entities across the globe. This has resulted in potentially significant accounting changes for entities that enter into cloud-computing arrangements.

- The IFRS Interpretations Committee has published two agenda decisions clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be accounted for. The agenda decisions do not address the accounting for other components of cloud technology such as Infrastructure-as-a-Service and Platform-as-a-Service
- The first agenda decision, published in March 2019, concludes that a SaaS arrangement that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract (rather than a software lease or the acquisition of a software intangible asset)
- The second agenda decision, published in April 2021[1], addresses how a customer should account for the costs of configuring or customising the supplier's application software in a SaaS arrangement that is determined to be a service contract. It concludes that:
  - Often, the configuration and customisation costs do not result in an intangible asset of the customer. Instead, the customer recognises the costs as an expense when the configuration or customisation services are received. If the customer pays the supplier before receiving those services, the prepayment is recognised as an asset
  - If the configuration or customisation services are performed by the supplier of the application software (or its agent) and the services received are not distinct from the right to receive access to the supplier's application software, then the customer recognises the costs as an expense over the term of the SaaS arrangement
  - In limited circumstances, certain configuration and customisation activities undertaken in implementing SaaS arrangements may give rise to a separate asset. This may be the case if the arrangement results, for example, in additional code from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits. The customer recognises an intangible asset if the additional code is "identifiable" and meets the recognition criteria in IAS 38 *Intangible Assets*

For more information please see the following websites:

www.iasplus.com
www.deloitte.com

1 The second agenda decision was published in April 2021 as an addendum to the March 2021 *IFRIC Update*

- The requirement to recognise configuration and customisation-related costs as an expense could result in a reduction in profit in a particular year, impacting measures such as earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA) and profit before tax (PBT)

- Where a change in accounting policy is required to apply the conclusions reached by the IFRS Interpretations Committee, an entity must account for the change applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. For example, an entity may be required to derecognise costs previously recognised as an intangible asset and restate the comparative period(s)

- There may be other consequential impacts beyond the immediate accounting implications arising from the agenda decisions that should be considered, e.g. the impact on business metrics and targets linked to profit measures

Introduction

In recent years there has been a sharp increase in the number of entities embarking on digital transformation projects, many of which incur significant upfront implementation costs.

In March 2019, the IFRS Interpretations Committee considered the accounting for SaaS arrangements (the first agenda decision). Applying the conclusions reached in this agenda decision, many such arrangements are accounted for as service arrangements rather than the acquisition (or lease) of software assets. This is because generally, in a cloud-based environment, the SaaS contract gives the customer only the right to receive access to the cloud provider's application software, rather than a license over the intellectual property (IP) (i.e. the customer does not control the software itself).

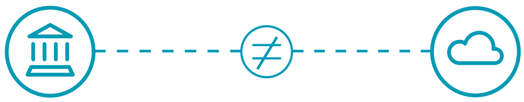
In its agenda decision published in April 2021 (the second agenda decision), the IFRS Interpretations Committee considered how an entity should account for configuration[2] and customisation[3] costs incurred in implementing these (SaaS) service arrangements and concluded that typically these costs should be recognised as an expense, unless the criteria for recognising a separate asset are met. This represents a significant difference with the requirement applicable under US GAAP.

The IFRS Interpretations Committee agenda decisions may have a significant impact on many entities, in both the private and public sectors, irrespective of size and industry.

The main difference between on-premise and cloud models

To understand the conclusions reached by the IFRS Interpretations Committee, it is helpful to understand the main differences between the traditional on-premise and cloud-based technology models.

Although the front-end appearance is broadly consistent, there are significant differences, as highlighted in the diagram, which result in the different accounting conclusions.



Traditional on premise model	Cloud model
• Purchased hardware and application software licenses • Behind customer's firewall • Customer obtains control over IP	• Rights only to access application software • Behind cloud provider's firewall • Cloud provider retains control over IP

The accounting explained

SaaS arrangement—service or asset?

The first agenda decision addresses the customer's accounting for a SaaS arrangement where the customer pays a fee in exchange for a right to receive access to the supplier's application software for a specified term. Specifically, the first agenda decision considers whether the customer receives a software asset at the contract commencement date or a service over the contract term.

A customer receives a software asset at the contract commencement date if either (a) the contract contains a software lease or (b) the customer otherwise obtains control of software at the contract commencement date. The IFRS Interpretations Committee observed that a right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not in itself give the customer any decision-making rights about how and for what purpose the software is used. Further, at the commencement date, the contract does not give the customer the power to obtain the future economic benefits from the software itself and the right to restrict others' access to those benefits.

2 Configuration, as described in the second agenda decision, involves the setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way

3 Customisation, as described in the second agenda decision, involves modifying the software code in the application or writing additional code

Consequently, the IFRS Interpretations Committee concluded that a contract that conveys to the customer only the right to receive access to the supplier's application software in the future is neither a software lease nor an intangible software asset but rather a service the customer receives over the contract term.

Nevertheless, in certain SaaS arrangements, the customer may obtain an intangible asset. This may be the case when:

- The customer has the contractual right to take possession of the software during the hosting period without significant penalty
- It is feasible for the customer to run the software on its own hardware or contract with a party unrelated to the supplier to host the software

Accounting for configuration and customisation services in implementing SaaS arrangements

The second agenda decision addresses configuration and customisation costs incurred in implementing SaaS arrangements. Specifically, it addresses whether the customer recognises an intangible asset in relation to configuration or customisation of the supplier's application software, and, if an intangible asset is not recognised, how the customer accounts for the configuration or customisation costs.

Does the customer recognise an intangible asset in relation to configuration and customisation of the application software?

If the supplier controls the application software to which the customer has access (i.e. a service arrangement applying the first agenda decision), the assessment of whether configuration or customisation of that software results in an intangible asset for the customer depends on the nature and output of the configuration or customisation performed. Often, the customer would not recognise an intangible asset because it does not control the software being configured or customised and those configuration or customisation activities do not create a resource controlled by the customer that is separate from the software.

Some entities choose to retain some of their legacy on-premise software to operate in combination with the new cloud-based software applications. SaaS arrangements may require, for example, the modification of existing, or the development of new, on-premise software to create additional functionality for the entity and to enable the existing on-premise software to connect with the cloud-based software applications, often referred to as bridging modules or Application Programming Interfaces (APIs). In determining whether to recognise the additional code as an intangible asset, the entity assesses whether the additional code meets the definition of an intangible asset and the recognition criteria in IAS 38.

Definition—intangible asset (IAS 38:8)

- An identifiable non-monetary asset (defined as a resource controlled by an entity) without physical substance

Control (IAS 38:13-16)

- Power to derive future economic benefits
- Power to restrict the access of others to those benefits

Recognition criteria (IAS 38:21-23)

- Probable future economic benefits to the entity
- The cost of the asset can be measured reliably

Demonstrating control—whose assets are being enhanced or customised by the implementation activities?

In SaaS arrangements, configuration and customisation activities are commonly performed on the internal infrastructure and software applications of the cloud service provider and therefore typically do not create a resource controlled by the customer. In contrast, if these activities are performed on the customer's infrastructure and applications (i.e. 'behind the customer's firewall'), the activities are more likely to represent the transfer of an asset that the customer controls because it enhances, improves or customises an existing on-premise software asset of the entity.

Identifying whether the configuration and customisation costs in a SaaS arrangement result in an intangible asset controlled by the customer

Example 1
Entity S, the supplier, enters into a non-cancellable SaaS arrangement with Customer T for a three-year term. As part of the arrangement, Entity S has agreed to perform certain activities to add functionality to the SaaS before the commencement of the contract term (i.e. customisation services) for an upfront fee. The added functionality is needed for the SaaS to work as intended by Customer T. To perform the customisation services, Entity S must make modifications to its software applications that will be used to provide the SaaS. Customer T can only access the added functionality through the SaaS and has no other rights to the enhancements, i.e. Entity S retains ownership of the improvements.

Customer T does not control the customisation services it receives. This is because the customisation services result in the functionality being added to Entity S's assets, which Entity S controls. The services do not enhance, improve, or customise an asset that Customer T controls. Therefore, Customer T does not recognise these costs as a software asset. Instead, the customisation costs are recognised as an expense (see next section for a discussion of the period(s) in which the expense is recognised).

Example 2
Assume the same facts as in Example 1, except that Entity S has also agreed to perform other implementation activities before the commencement of the contract term for an upfront fee. These activities are performed on Customer T's assets and result in customisation of Customer T's on-premise systems for communication with Entity S's on-premise systems.

In this scenario, the additional services enhance, improve, or customise assets controlled by Customer T. The customisation costs are recognised as a separate software asset or as part of the cost of an existing software asset, if the recognition criteria in IAS 38 are met.

If an intangible asset is not recognised, how does the customer account for the configuration or customisation costs?
If the customer does not recognise an intangible asset in relation to configuration or customisation of the application software, it recognises the costs as an expense in the period in which it receives the configuration or customisation services in accordance with the contract between supplier and customer to deliver those services.

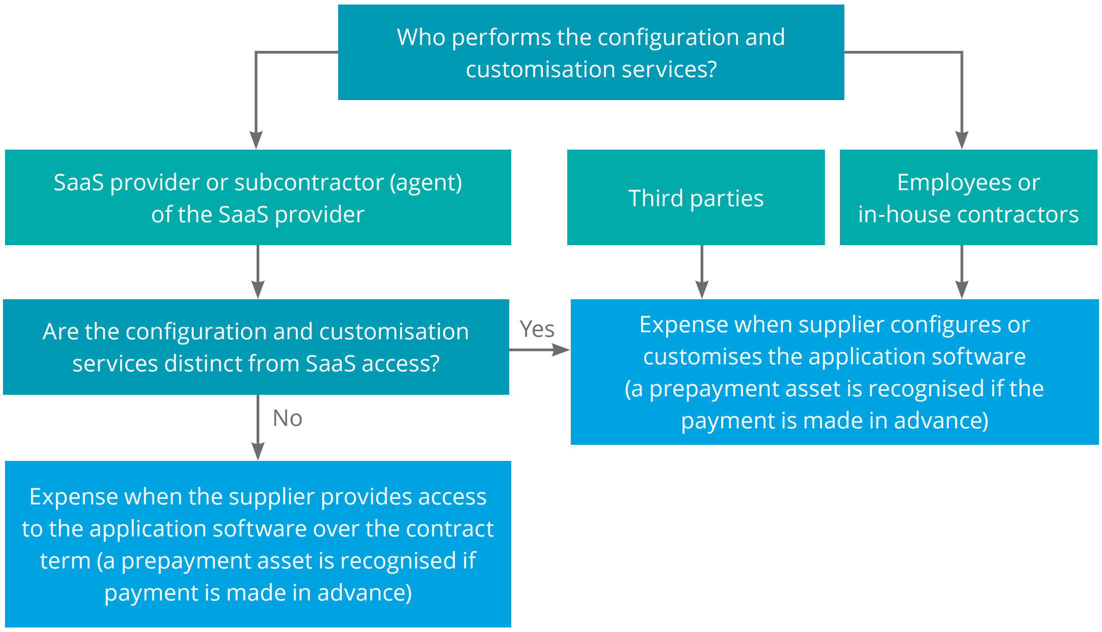
IAS 38 includes no requirements that address the identification of the services received in determining when the supplier performs those services in accordance with the contract to deliver them. Therefore, applying IAS 8, an entity is required to refer to, and consider the applicability of, the requirements in IFRS Standards that address similar and related issues. The IFRS Interpretations Committee observed that IFRS 15 *Revenue from Contracts with Customers* includes requirements that suppliers apply in identifying the promised goods or services in a contract with a customer. In particular, the IFRS Interpretations Committee noted that the requirements of IFRS 15 address issues similar and related to those faced by the customer in determining when the supplier performs the configuration or customisation services in accordance with the contract to deliver those services would be appropriate.

The decision tree below outlines how the second agenda decision applies to configuration and customisation costs[4] incurred when implementing a SaaS arrangement, by separately considering contracts for services between the customer and:

- The supplier of the application software (including cases in which the supplier subcontracts services to a third party as its agent)
- A third party
- Employees or in-house contractors[5]

4 Other costs incurred in relation to SaaS arrangements are discussed on page 6

5 Not specifically addressed in the second agenda decision



Determination of whether configuration and customisation services are distinct from the SaaS access

As noted above, the IFRS Interpretations Committee observed that the requirements of IFRS 15 address issues similar and related to those faced by the customer in determining when the supplier performs the configuration or customisation services in accordance with the contract to deliver those services would be appropriate. In particular, IFRS 15:27-29 address how an entity (seller) determines whether its promises to transfer goods or services to a customer are separately identifiable (i.e. represent distinct performance obligations). A good or service that is promised to a customer is distinct if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct)

- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract)

IFRS 15:29 includes examples of factors that may indicate that two or more promises to transfer goods or services to a customer, in the context of a particular contract between the supplier and customer, would not be separately identifiable (i.e. not distinct):

- The entity (seller) provides a significant service of integrating the promised goods or services into a combined output

- One or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract, as discussed further below

- The goods or services are highly interdependent, or highly interrelated

IFRS 15:BC109-BC110 note that in some industries, such as the software industry, the notion of inseparable risks is more clearly illustrated by assessing whether one good or service significantly modifies or customises another good or service. For example, an entity may promise to provide a customer with existing software and also promise to customise that software so that it will function with the customer's existing infrastructure such that the entity is providing the customer with a fully integrated system. In this case, if the customisation service requires the entity to significantly modify the existing software in such a way that the risks of providing the software and the customisation service are inseparable, the entity may conclude that the promises to transfer the software and the customisation service would not be separately identifiable and, therefore, those goods or services would not be distinct within the context of the contract.

Thinking it through—Significant customisation and modification of the cloud-based software

The degree of customisation and modification of the cloud-based software that would be deemed significant will be a matter of judgement and will require an understanding of an entity's facts and circumstances.

Obtaining an understanding of the level of complexity and effort or specialist skills involved in performing the modifications and customisations may be a useful starting point to form a view of whether the configuration and customisation services performed by the supplier of the application software are distinct (i.e. separately identifiable) from the access to the application software over the contract term. Factors that could be considered include, but are not limited to:

Indicators that the services are **'distinct'**	Indicators that the services are **'not distinct'**
• Configuration and customisation services could be provided by **a party other than the SaaS supplier** (or its agent) on a stand-alone basis (e.g. consulting firms, other SaaS providers) • The customer could **use and benefit from the SaaS** arrangement without the configuration and customisation services	• Providing configuration and customisation services requires a **highly specialised or complex skill set** that neither the customer nor third parties possess • The implementation services **significantly alter any features or functionality** of the SaaS

If there are indicators that the configuration and customisation services are distinct from the access to the application software and indicators that they are not, a customer will need to apply judgement to its specific facts and circumstances to determine the nature of the services received.

Common implementation costs in relation to SaaS arrangements

While the IFRS Interpretations Committee only discussed configuration and customisation activities of implementing a SaaS arrangement, a SaaS implementation project includes a range of activities. The following table illustrates some examples of typical costs incurred by customers in SaaS arrangements and the likely accounting treatment of each.

Implementation stage	Costs related to	Accounting treatment of related costs[6]
Preliminary project stage	Selection of a provider	Recognise as an expense as incurred
	Development of business case and project plan	Recognise as an expense as incurred
Installation and implementation	Installation and set-up of the customer's owned or leased equipment (e.g. servers)	Recognise as part of the costs of the related property, plant and equipment or right-of-use asset
	Configuration and set up of provider offerings and customisation of provider application software—services performed by the provider of the application software (or its agent)	• If the services are distinct from the SaaS access, the costs are recognised as an expense when the software is configured or customised • If the services are not distinct from the SaaS access, the costs are recognised as an expense over the SaaS contract term when access to the cloud application software is received
	Configuration and set up of provider offerings and customisation of provider application software—Services performed by a party other than the provider of the application software (or its agent)	Recognise as an expense as incurred
	Development of bridging modules (or APIs) to existing on-premise systems or bespoke additional capability	Recognise as an intangible asset if, and only if, the customer controls the IP over the code written for the modification of existing or development of new on-premise software and the recognition criteria in IAS 38 are met. Otherwise, recognise as an expense as incurred

6 If costs to be recognised as an expense as incurred are paid before the related services are received, a prepayment asset is recognised and recognised as an expense the services are received

Implementation stage	Costs related to	Accounting treatment of related costs[6]
Data conversion	Purchased data conversion software	Recognise as an intangible asset. However, if only used for a single project, the useful life may be relatively short
	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	Recognise as an expense as incurred
Post implementation	Training activities	Recognise as an expense as incurred
	Testing and ongoing maintenance activities	Recognise as an expense as incurred
	Ongoing access to SaaS	Recognise as an expense as incurred

Practical implications of the IFRS Interpretations Committee agenda decisions

Configuration and customisation costs previously recognised as an asset

If an entity's current accounting policy for SaaS arrangements is inconsistent with the conclusions reached in the IFRS Interpretations Committee agenda decisions, their implementation may result in a change in accounting policy to be applied retrospectively with restatement of the comparative period(s) in accordance with IAS 8.

When to implement the agenda decisions

Implementing the IFRS Interpretations Committee agenda decisions may have a significant impact on an entity's financial statements. Unlike new or amendments to existing IFRS Standards which have a specific future application date, IFRS Interpretations Committee agenda decisions have no effective date. However, the *Due Process Handbook* of the IFRS Foundation explains that it would be expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change. Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances.

Nonetheless, an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Standards.

Impact of retrospective restatement on the primary statements

The following diagram outlines the typical impact expected of a retrospective restatement of historical financial results in an entity's primary financial statements upon implementation of the IFRS Interpretations Committee's agenda decisions.

To note, in the year of a SaaS implementation, a reduction in profit (and related impact on retained earnings) will typically be evident, resulting from the recognition as an expense of configuration and customisation costs incurred upfront. In future years, over the life of the SaaS contract, ongoing costs incurred for the SaaS access will be recognised as operating expenses with no further amortisation expense which may, in certain cases, result in an increase in profits.

Statement of financial position		Statement of comprehensive income		Statement of cash flows	
▼	Total assets	▲	Operating expenses	▲	Operating cash outflows
▼	Net assets	▼	Amortisation expense	▼	Investing cash outflows[7]
▼	Retained earnings	**Depends**	Profit/earnings per share		

7 In accordance with IAS 7 *Statement of Cash Flows* (paragraph 16), only expenditures that result in a recognised asset are eligible for classification as investing activities. The cost of implementing SaaS arrangements that are recognised as an expense will therefore not meet the criteria to be classified as part of cash flows arising from investing activities and should be classified as cash flows arising from operating activities.

Illustrative note disclosures

A. Implementation of IFRS Interpretations Committee agenda decision and new accounting policy

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRS Interpretations Committee agenda decision clarifying how IFRS Standards apply to these types of arrangements. The new accounting policy is presented below. Historical financial information has been restated to reflect the impact of the change—refer note X.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

B. Key judgements in applying the entity's accounting policies

In accordance with IAS 1 *Presentation of Financial Statements*, an entity is required to disclose, along with its significant accounting policies and other notes, the judgements made in applying the entity's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Selected illustrative disclosures are included below but would need to be tailored to the entity's specific judgements.

Note X describes the Group's accounting policy in respect of customisation and configuration costs incurred in implementing SaaS arrangements. In applying the Group's accounting policy, the directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements.

Capitalisation of configuration and customisation costs in SaaS arrangements

Part of the customisation and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances or modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of, and the recognition criteria for, an intangible asset in IAS 38 *Intangible Assets.* During the year, the Group recognised CUxxx (20X2: CUxxx) as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customisation services are distinct from the SaaS access

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities are not distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software is significant. During the year, the Group recognised CUxxx (20X2: CUxxx) as prepayments in respect of customisation and configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

Illustrative note disclosures (continued)

C. Retrospective restatement

Where a change in accounting policy has an effect on the current period or any prior period, IAS 8 requires entities to disclose, to the extent practicable:

- For the current period and each prior period presented, the amount of the adjustment for each financial statement line item affected and, where applicable, for basic and diluted earnings per share
- The amount of the adjustment relating to periods before those presented
- If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances and judgements made in making this determination, and a description of how and from when the change in accounting policy has been applied

Further, if the retrospective restatement has a material effect on the information presented in the statement of financial position at the beginning of the preceding period, IAS 1 requires the presentation of this “third statement of financial position”.

For the purpose of the illustration below, it was assumed that an entity has implemented a SaaS arrangement over a two-year period, starting during the year ended 30 June 20X0 and completing the implementation during the year ended 30 June 20X2 (which is the prior period). Tax impacts have been excluded, and only selected financial statement line items presented.

As disclosed in note X, the Group revised its accounting policy in relation to SaaS arrangements during the year as a result of the implementation of agenda decisions issued by the IFRS Interpretations Committee. Comparative financial information has been restated to reflect the impact of the change in accounting policy, as follows:

Financial statement item	30 June 20X2 DR/(CR)	1 July 20X1 DR/(CR)
Statement of financial position		
Intangible assets	(xxx)	(xxx)
Total assets/net assets	(xxx)	(xxx)
Retained earnings	xxx	xxx
Total equity	xxx	xxx
Statement of comprehensive income		
IT-related expense	xxx	–
Depreciation and amortisation	(xxx)	–
Profit before tax	xxx	–
Profit per share	xxx	–
Statement of cash flows		
Payments to suppliers and employees	(xxx)	–
Net cash generated by operating activities	(xxx)	–
Payments to acquire intangible assets	xxx	–
Net cash used in investing activities	xxx	–

Beyond the accounting

Beyond the immediate accounting impacts arising from the application of the IFRS Interpretations Committee agenda decisions in respect of SaaS arrangements, there may be other impacts for entities to consider.

Financial reporting and wider business impacts

- **Tax implications**—consult with tax advisors in respect of any potential change in tax treatment for SaaS arrangements. From a deferred tax perspective (if the tax treatment remains unchanged), the reduction in the carrying amount of software assets to an amount that is lower than its tax base, will result in a deferred tax asset which will need to be assessed for recoverability
- **Debt covenants**—Many entities have debt covenants specific to profit targets, such as EBIT, EBITDA or PBT. Whilst some debt covenants may be adjusted in case of changes in accounting standards, this change may not fall within that category. Early engagement with financiers is key and consultation with legal counsel may be appropriate
- **Remuneration schemes with profit targets**—Consider the possible impact on remuneration schemes which are linked to profit measures such as EBIT, EBITDA or PBT, including any share-based payment performance hurdles
- **Mergers and acquisitions**—Consider the possible impact on asset valuations, purchase price allocations or post-acquisition ratios, including any contingent consideration based on profit measures
- **Segments**—Where entities may previously have allocated either capital spend or amortisation over segments, entities may need to reconsider how this is done going forward
- **Impairment models**—Consider impact on impairment models. Many of these models start with EBITDA, followed by non-cash adjustments. These may be starting with a lower EBITDA number but the assets in the cash-generating unit will no longer include some software
- **Budgets and forecasts**—Consider any revisions which may be required to current budgets and forecasts in response to any changes in an entity's accounting policy in respect of SaaS arrangements
- **Framework for application of accounting policy**—In addition to an appropriate accounting policy, consider developing a practical framework to help the business identify the information and documentation needed to apply the accounting policy for SaaS arrangements consistently and appropriately. A key factor in this framework will be the collaboration between Finance and IT starting from the business case stage
- **Information and systems**—To support the consistent and appropriate application of the accounting policy for SaaS arrangements, consideration should be given to any changes to existing or new systems that may be required to obtain the required information.

Conclusion

The conclusions reached in the IFRS Interpretations Committee's recently published agenda decisions may change current accounting practice for cloud-computing arrangements.

Every SaaS arrangement is unique. The analysis and determination of the appropriate accounting treatment of configuration and customisation costs incurred in implementing SaaS arrangements could require significant judgement and often also require a deep understanding of certain technical aspects of the arrangement. This may require collaboration between various departments, e.g. finance and IT, to ensure all the information is considered.

An entity should develop and consistently apply an appropriate accounting policy for configuration and customisation costs incurred in implementing SaaS arrangements and should explain judgements made in applying its accounting policy.

Looking forward, developing a practical framework to support the business in planning for future cloud-computing arrangements and consistently applying its accounting policy is important.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. iGAAP on DART allows access to the full IFRS Standards, linking to and from:

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