



FASB | IASB Education Meeting

September 29, 2023

Accounting for and Disclosure of Software Costs

This paper has been prepared for discussion at a public education meeting of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). It is not intended to represent the views of the boards or any individual member of either board or the staff. Comments on the application of IFRS[®] Accounting Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Accounting Standards or US GAAP. Tentative technical decisions are made in public and reported in FASB Action Alert or in IASB Update. Official positions of the FASB or the IASB are determined after extensive due process and deliberations.

Scope of Current Software Costs Guidance

Scope—Software Costs Guidance

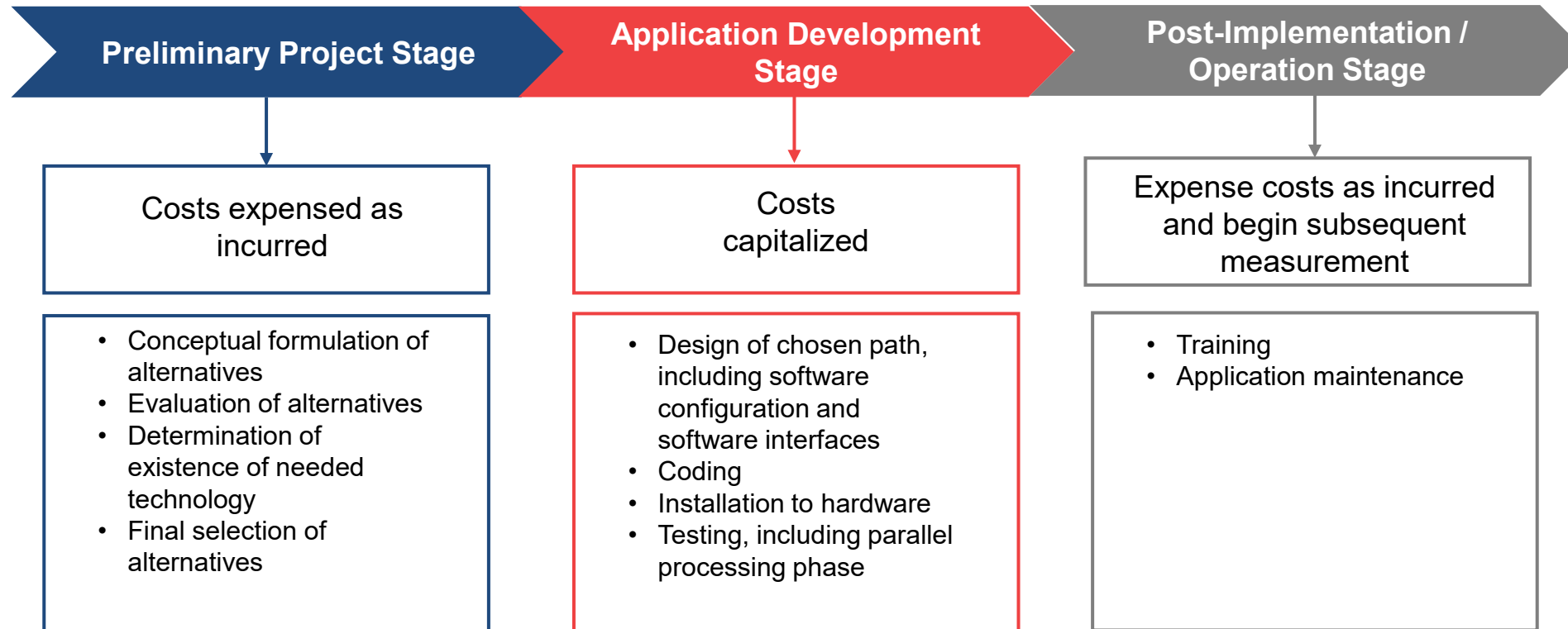
- Costs incurred to develop or purchase software that is **solely for entity's internal use**
- Costs incurred to develop a **hosting arrangement platform**
- Costs incurred by a customer to **implement a CCA**

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

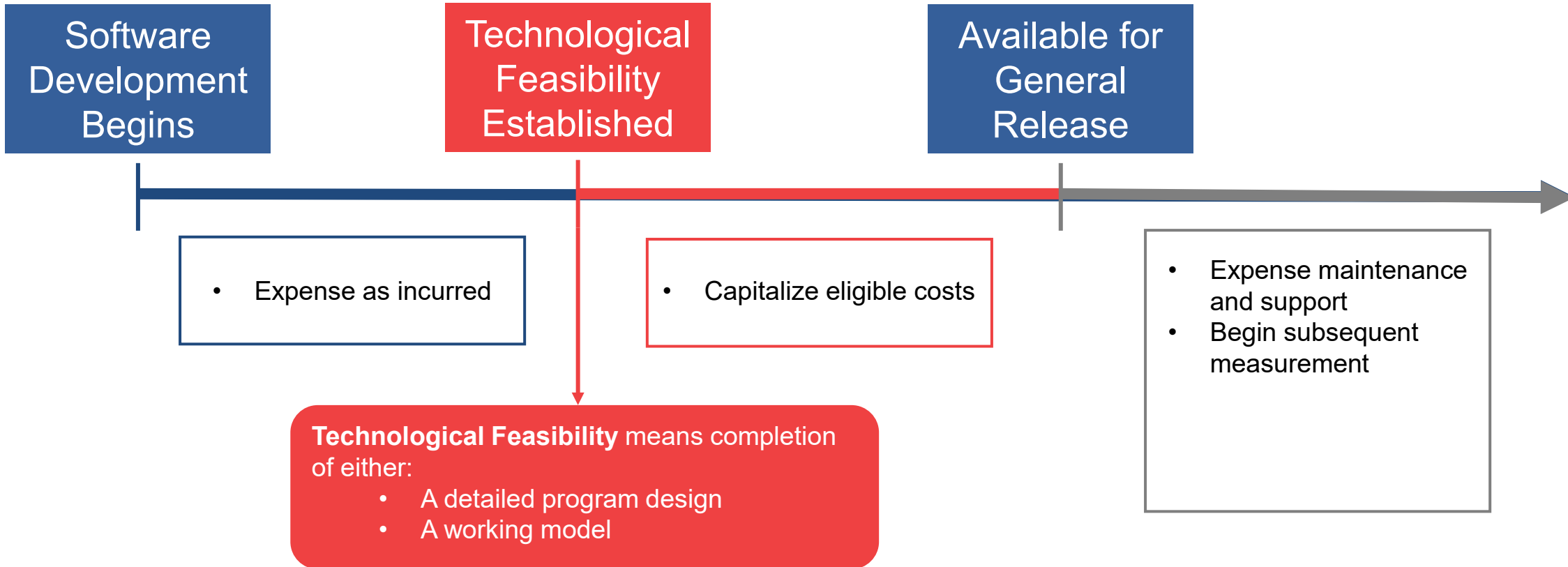
- Costs incurred to develop software **to be sold or licensed** to customers
- Costs incurred to develop software **used in a hosting arrangement** in which the **customer can take possession**

Subtopic 985-20,
Software—Costs
of Software to Be
Sold, Leased, or
Marketed

Internal-Use Software (Subtopic 350-40)



External-Use Software (Subtopic 985-20)



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

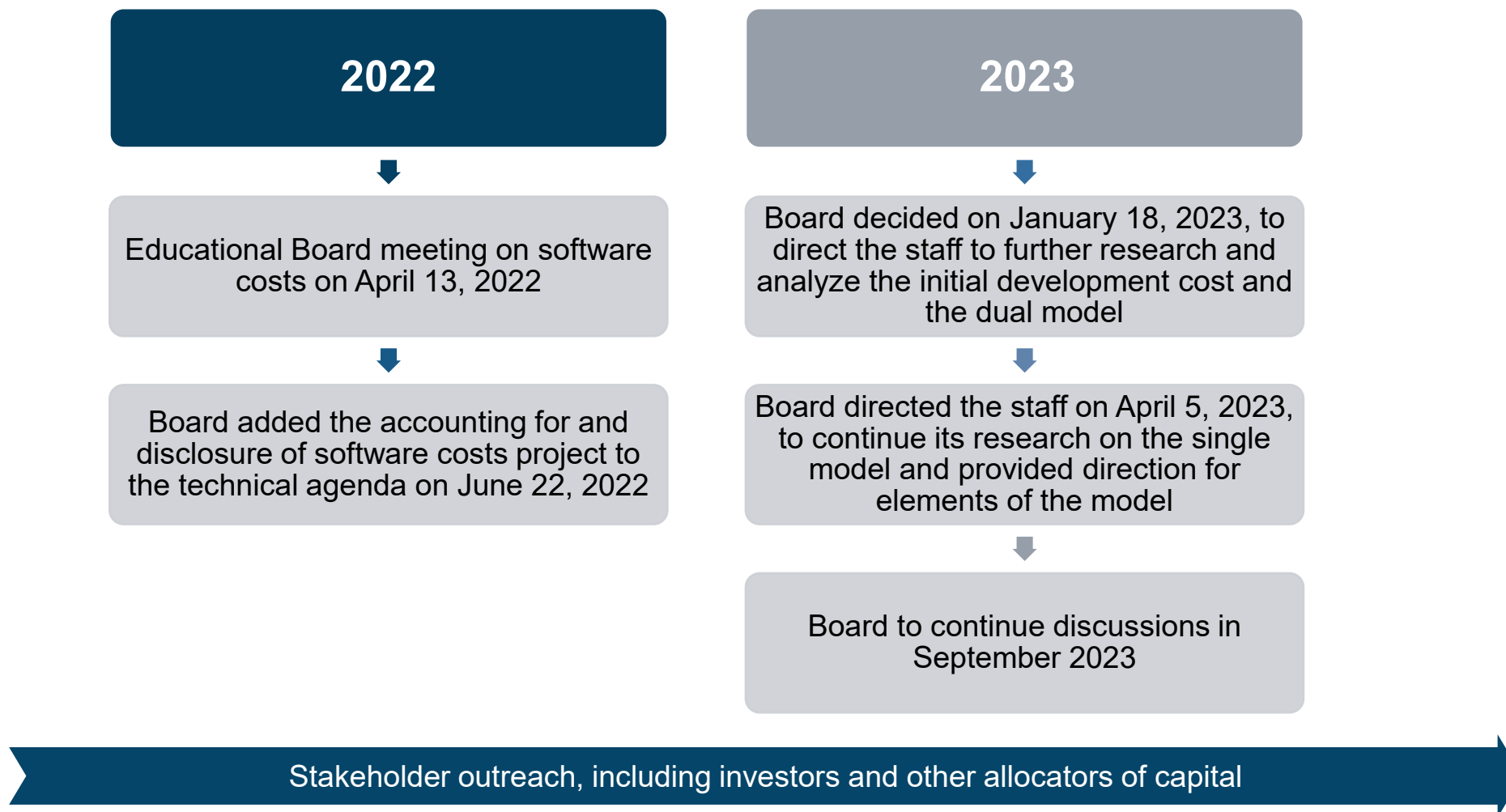
- Recognition, measurement, presentation, and disclosure of costs to internally develop or acquire software, which encompasses all of the software costs currently subject to the guidance in Subtopics 350-40 and 985-20



Project Objectives

- To modernize the accounting for software costs
- To enhance the transparency about an entity's software costs

Project Timeline



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.

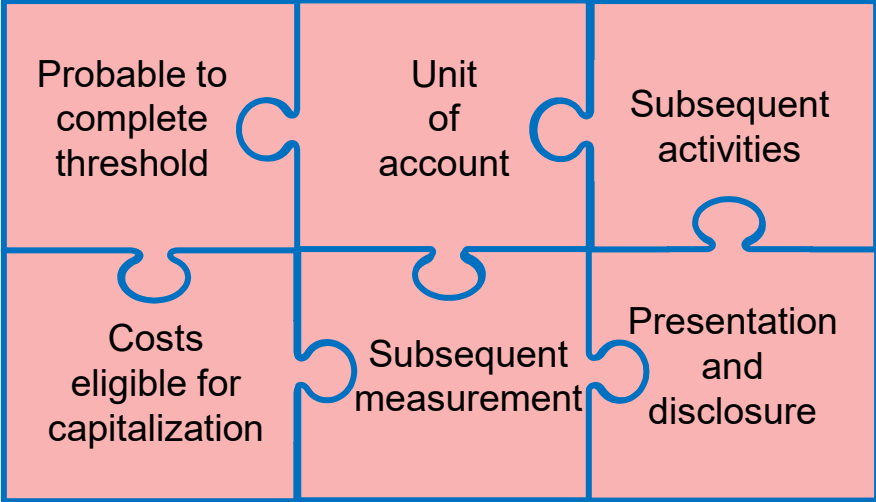
** The Board decided to no longer pursue a dual model on April 5, 2023.

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.

Key Recognition Decisions

- In September 2023, the Board will discuss the following key areas of the model:

Starting point
for
capitalization

Unit of
account

Ending point
for
capitalization

Subsequent
activities