

Decision tree: Accounting for configuration or customisation costs in a Software as a Service (SaaS) arrangement

Does the cloud computing arrangement provide a resource to the customer that it can control?

No

Yes

The Software as a Service (SaaS) arrangement should be accounted for as a **service contract** as it conveys to the customer only the right to receive access to the service provider's application software in the future.

The cloud computing arrangement should be accounted for as an **intangible asset** under IAS 38 *Intangible Assets* as the customer receives a software asset.

Whose assets are being enhanced or customised by the implementation activities, being the configuration and customisation activities?

Customer's (reporting entity's) infrastructure and applications

SaaS service provider's infrastructure and applications

The activities represent the transfer of an asset that the customer controls, so the **costs should be capitalised** under IAS 38 *Intangible Assets*.

The activities do not represent the transfer of an asset that the customer controls, so the costs should be **recognised as an expense** when the customer receives the configuration or customisation services based on the *nature* of the contract between the customer and the SaaS service provider, and *when* the service provider performs the configuration or customisation services.

**1 A current area of discussion surrounds whether a third party may be considered to be acting as an agent of the SaaS service provider in providing the configuration or customisation service. This will depend upon the specific facts and circumstances. Where this is the case, the costs should be recognised as a prepayment and expensed when the SaaS service provider provides access to the application software over the contract term, this being where the configuration or customisation service is not deemed to be distinct from the SaaS arrangement.*

Who performs the configuration or customisation services?

SaaS service provider or subcontractor (agent) of the service provider

*1

Third parties

Customer in-house contractors or employees

Are the configuration or customisation services distinct from SaaS access?

No

Yes

Recognise as a **prepayment and expense the costs** when the service provider provides access to the application software over the contract term.

Expense the costs when the configuration or customisation service is provided.