

# Cloud Computing

## Talking points for episode 115



Cloud computing is a model for delivering information technology services through web-based tools and applications. One common cloud computing model is SaaS (Software as a Service). In a SaaS arrangement, the customer obtains access to software over the contract term. **The software typically remains on the provider's hardware, and the customer would only access the software via an internet connection.** In contrast, under traditional arrangements, the customer would obtain a software licence or have a right to take possession of the software.



Cloud computing is a topical issue because many entities are transitioning to cloud computing solutions. The IFRS Interpretations Committee considered a submission about the accounting for SaaS arrangements more generally in March 2019 and in **March 2021, it issued an agenda decision about customisation and configuration costs in particular.**



The IFRS Interpretations Committee defined **customisation and configuration ('CC')** costs as follows:

- **Configuration:** Typical configuration costs relate to the setting of various 'flags' or 'switches' within the software, or defining certain values or parameters, to implement a particular set-up for the software's existing functionality. Configuration does not involve the modification or writing of additional software code, but rather involves setting up the software's existing code to function in a particular way.
- **Customisation:** Typical customisation costs involve modifying existing software code in the application or writing additional code. The effect of significantly altering or adding software code is generally to change, or create additional, functionalities within the software.



The agenda decisions highlighted different accounting treatments, which in some cases might be dependent on the entity performing the CC service. The agenda decision stated that if a **third party who is not a subcontractor renders the CC service then it should be expensed during the customisation.** i.e. likely at the start of the contract. Where an entity does the **CC themselves they would look to IAS 38 Intangible assets.** Where the **SaaS provider (or a third party subcontractor of the SaaS provider) does the CC service and there is no intangible asset, entities would look to IFRS 15's distinct criteria** - if CC services are distinct they are expensed as incurred and if not distinct, they would be recognised as a prepayment.



The agenda decision was part of the March 2021 IFRS IC meeting and ratified by the board at the end of April. **As with all agenda decisions it is effective immediately and applied retrospectively** but entities would be entitled to sufficient time to make the change.

[PwC' In Depth on Cloud Computing](#)



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