



## FASB Proposes Guidance for Customer's Accounting for Cloud Computing Services

In response to questions raised by constituents, the FASB recently issued a proposed Accounting Standards Update (ASU) that would provide explicit guidance on whether a customer's fees paid in a cloud computing arrangement are for the acquisition of a software license, for services, or both.<sup>1</sup>

### Key Facts

- The proposed guidance would be consistent with existing guidance that applies to the cloud service provider for determining whether the arrangement includes a license of software or is entirely a hosting arrangement.
- The comment period ends November 18, 2014.

### Key Impacts

- If a cloud computing arrangement includes a software license, the customer generally would account for the license portion of the arrangement using the guidance on internal-use software.<sup>2</sup>
- If a cloud computing arrangement does not include a software license, the customer would account for the arrangement as a service contract.

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<sup>1</sup> FASB Proposed Accounting Standards Update, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, August 20, 2014, available at [www.fasb.org](http://www.fasb.org).

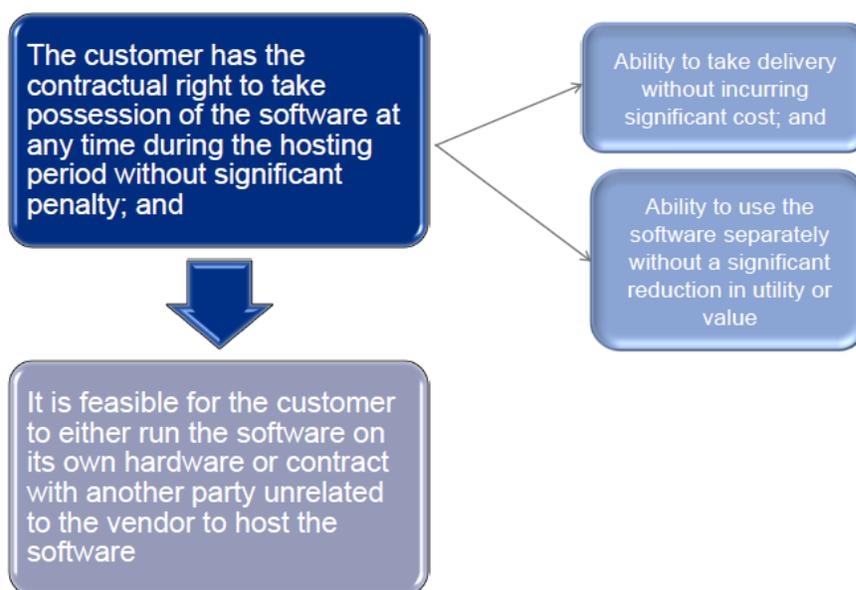
<sup>2</sup> FASB ASC Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software, available at [www.fasb.org](http://www.fasb.org).

## Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

U.S. GAAP does not currently include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. U.S. GAAP does, however, provide explicit guidance to the cloud computing provider for determining whether the arrangement includes a license of software or is entirely a hosting arrangement.<sup>3</sup>

The proposed ASU defines a hosting arrangement as an arrangement in which an end user of the software does not take possession of the software; rather, the software application resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis over the Internet or via a dedicated line.

A hosting arrangement would include a software license if it meets both of the following criteria.



If either criterion is not met, a hosting arrangement would be accounted for entirely as a service contract.

<sup>3</sup> FASB ASC paragraphs 985-605-55-121 to 55-123, available at [www.fasb.org](http://www.fasb.org).

## Proposed Transition, Effective Date, and Disclosures

**Proposed Transition.** An entity would have the option to adopt the proposed ASU either prospectively for all arrangements entered into or materially modified after the effective date, or retrospectively.

**Effective Date.** For public business entities, the proposed ASU would be effective for annual and interim periods in fiscal years beginning after December 15, 2015. For all other entities, the proposed ASU would be effective for annual periods beginning after December 15, 2015, and interim periods in fiscal years beginning after December 15, 2016. Early adoption would be permitted for all entities.

**Disclosure Requirements.** For those that elect prospective transition, the only disclosure requirements at transition would be the nature of and reason for the change in accounting policy, the transition method, and a qualitative description of the financial statement line items affected by the change. For those that elect retrospective transition, the disclosure requirements at transition would include the requirements for prospective transition plus additional quantitative information about the effects of the accounting change.

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