

# Cloud implementation costs

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## New guide for implementation costs incurred in a cloud service contract

### Highlights

- What's the issue?
  - What's the impact?
  - What's next? Check out our new Cloud implementation costs guide
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In a cloud computing arrangement, a customer typically pays a fee to a vendor in exchange for access to software over the internet. The software is hosted by the vendor on the vendor's computing infrastructure.

Customers in cloud computing arrangements often incur up-front costs to implement the software. The accounting for these implementation costs depends on whether the customer has a software asset or a service contract.

### What's the issue?

Implementation costs in cloud computing arrangements can be significant – companies need to determine whether these costs should be expensed as incurred or capitalised. The IFRS Interpretations Committee's (the Committee) March 2021 **agenda decision** clarifies how to perform this analysis for implementation costs incurred in a cloud service contract – i.e. when the customer does not control a software intangible asset.

### What's the impact?

The decision clarifies that in a cloud service contract the customer needs to assess whether the implementation service is distinct from the service of receiving access to the software. As such, some companies may need to change their current accounting policy and could also see an impact in their income statement as many implementation costs for cloud service contracts will need to be expensed as incurred.

### What's next?

Our **Cloud implementation costs guide** (PDF 416 KB) will help you apply the Committee's decision and includes a framework for analysing these costs and illustrative examples. Use this guide to assess your current accounting policy and determine whether any implementation costs incurred should be capitalised or expensed.

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