Cloud Computing Arrangements:
ASU 2018-15 Considerations in a Rapidly Changing World

GWSCPA Not-for-Profit Symposium
November 2, 2023

Presented by:
Jim Heller, Senior Manager, Finance- FP&A IT
American Chemical Society

Neil Pal, Senior Director of Finance
American Chemical Society

Diana Connolly, Professional Practice Director
O'Connor Consulting Services

Overview of Today's Session

- Discuss the requirements and real-world challenges of applying ASU 2018-15 for cloud computing arrangements that are service contracts, including:
  - Evaluating whether a hosting arrangement is a service contract.
  - Identifying implementation costs to capitalize.
  - Determining the amortization period.
  - Recognizing impairment and abandonment.
  - Reporting capitalized costs and related amortization.

ASU 2018-15:

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

Issued in August 2018

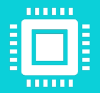
Effective for all entities by or before 2022

Updates the definition of a Hosting Arrangement

Extends the applicability of the Internal-Use Software Subtopic (ASC 350-40) to "implementation costs of a Hosting Arrangement That is a Service Contract"

ASC 350-40 Does Not Apply To:

Software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process

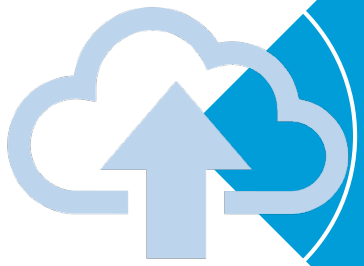


Software to be used in research and development

Software developed for others under a contractual arrangement, subject to contract accounting standards

Accounting for costs of reengineering activities, which often are associated with new or upgraded software applications

Rapidly Changing Cloud Environments



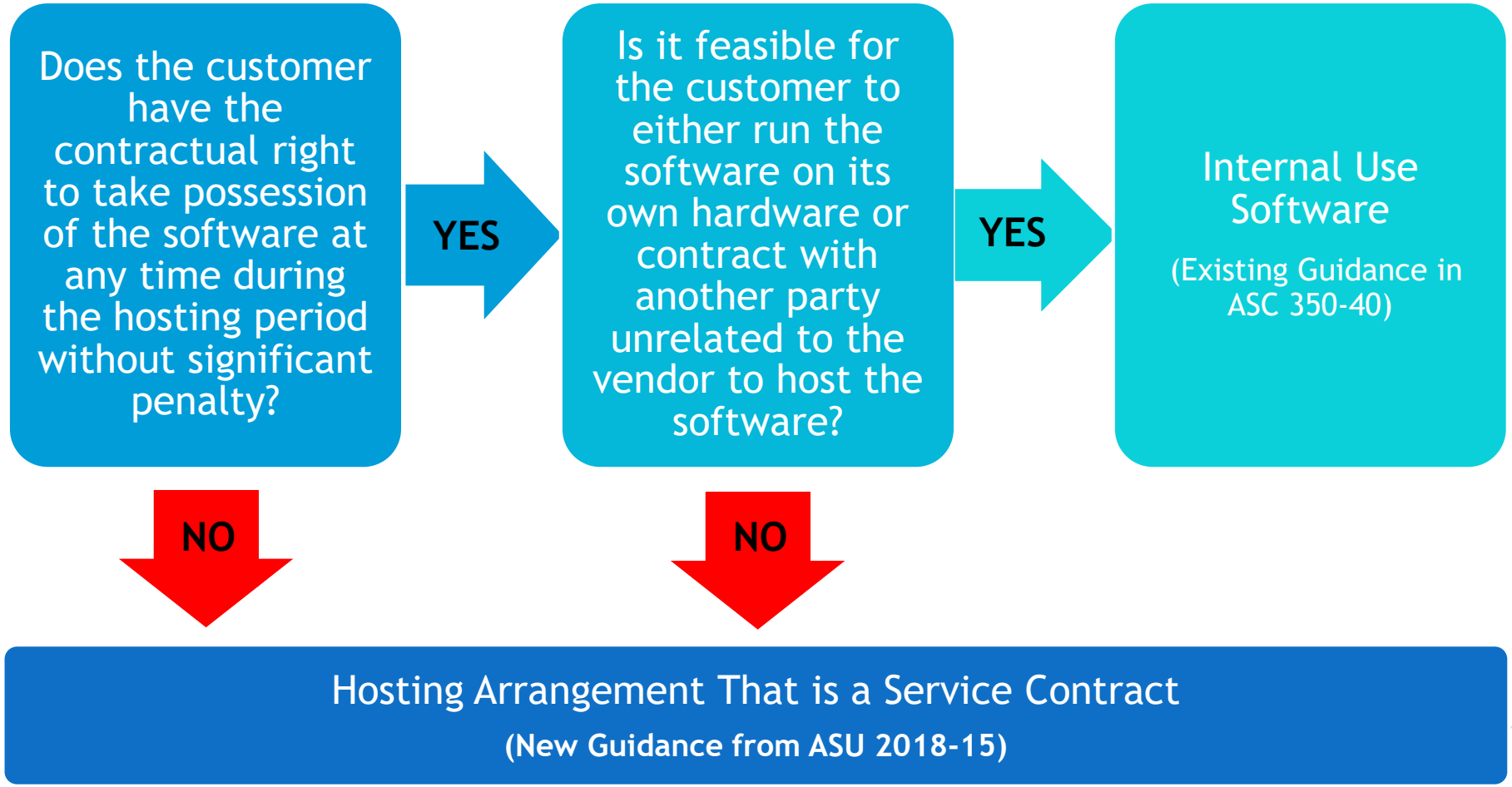
Cloud Types

- Private Cloud
- Public Cloud
- Hybrid Clouds
- Multiclouds

Cloud Computing Services

- SaaS: Software as a Service
- PaaS: Platform as a Service
- IaaS: Infrastructure as a Service

Evaluating Hosting Arrangements

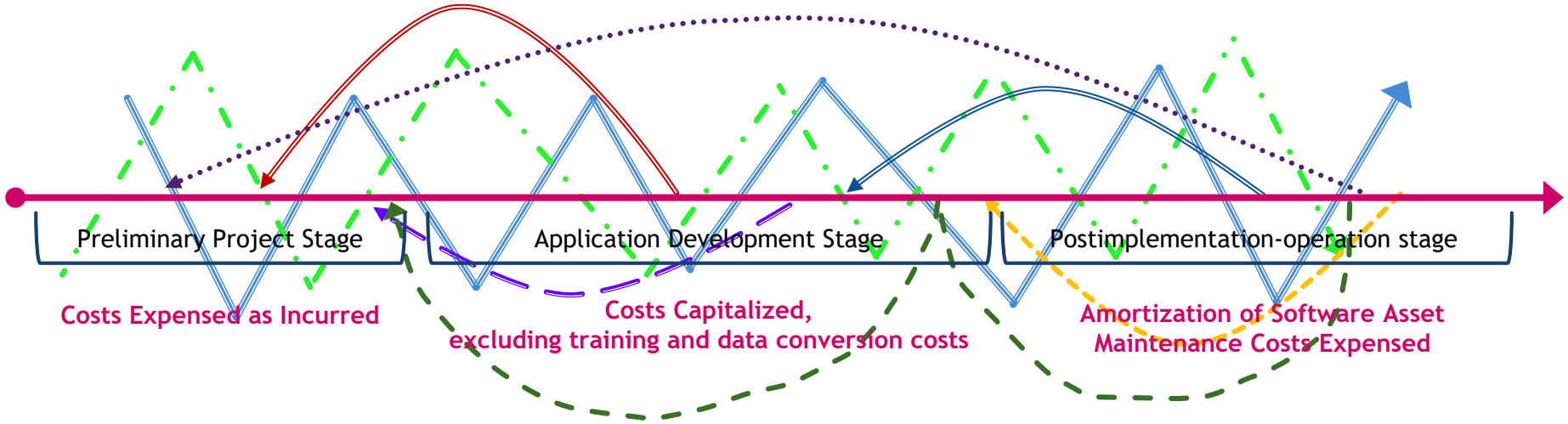


ASC 350-40-154A thru 15-4C

Hosting Arrangement That is a Service Contract
Costs to Capitalize

ASC 350-40-25 and 350-40-30

Hosting Arrangement That is a Service Contract
Costs to Capitalize



ASC 350-40-25 and 350-40-30

Hosting Arrangement That is a Service Contract
Determining the In-Service Date

1

Identify the modules or components of the hosting arrangement.

2

Determine when all substantial testing is completed.

3

Recognize dependencies on other modules or components.

ASC 350-40-35-17

Hosting Arrangement That is a Service Contract
Determining the Amortization Term

The fixed noncancellable term of the hosting arrangement

PLUS: Periods covered by an option to extend, if reasonably certain to be exercised	PLUS: Periods covered by an option to terminate, if reasonably certain not to be exercised	PLUS: Periods covered by an option to extend (or not terminate) which is controlled by the vendor.

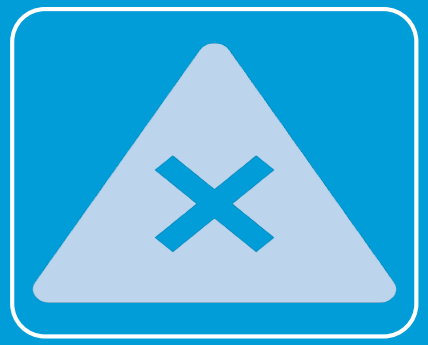
ASC 350-40-35-13 thru 35-14

Hosting Arrangement That is a Service Contract
Reassessing the Amortization Term

- Obsolescence
- Technology
- Competition
- Other economic factors
- Rapid changes in hosting arrangements
- Significant implementation costs with value

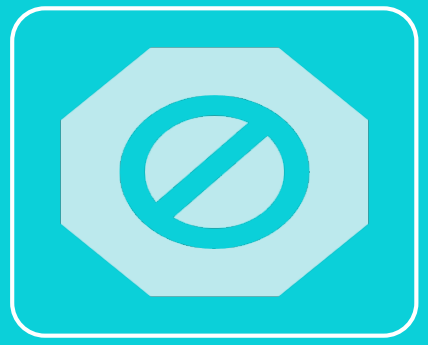
ASC 350-40-35-15 thru 35-16

Hosting Arrangement That is a Service Contract
Impairment and Abandonment



Impairment

- Should be evaluated when one of the following events or changes in circumstances occurs:
  - The hosting arrangement is not expected to provide substantive service potential.
  - A significant change occurs in the extent or manner in which the hosting arrangement is used or is expected to be used.
  - A significant change is made or will be made to the hosting arrangement.



Abandonment

- Asset must be accounted for as abandoned when it ceases to be used.
- Each module or component shall be evaluated separately as to when it ceases to be used.

Hosting Arrangement That is a Service Contract
Financial Statement Presentation

- Amortization of capitalized costs are presented in the same line as the related hosting fees
- Capitalized Implementation Costs are presented in the same line item as a prepayment for the related hosting fees
- Disclosures are required as though the capitalized implementation costs were a separate major class of depreciable asset

ASC 350-40-45-1 thru 45-2, ASC 350-40-50-3

Questions?