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CUSTOMERS

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Isaac M. O'Bannon • Aug. 20, 2014

As part of its simplification initiative, the [Financial Accounting Standards Board](#) (FASB) today issued a proposed Accounting Standards Update intended to simplify the accounting for a customer's fees paid in a cloud computing arrangement.

The Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, is intended to improve financial reporting of fees paid by public and private companies and not-for-profit organizations who are customers in a cloud computing arrangement.

Current Generally Accepted Accounting Principles (GAAP) address the accounting for cloud service providers but do not include explicit accounting guidance about a customer's accounting for its fees paid to the cloud service provider. Stakeholders have raised concerns that the lack of guidance in this area leads to unnecessary cost and complexity when evaluating the accounting for those fees, as well as some diversity in practice.

To address this issue, the proposed guidance would help customers determine whether a cloud computing arrangement includes a software license.

If a cloud computing arrangement includes a software license, then the customer would account for the software license consistent with other software licenses. If a cloud computing arrangement does not include a software license, the customer would account for the arrangement as a service contract.

The proposed guidance would not change existing GAAP for a customer's accounting

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prospectively to all cloud computing arrangements entered into or materially modified after the effective date or (2) retrospectively. Early adoption would be permitted for any organization.

The objective of the FASB's simplification initiative is to reduce cost and complexity in financial reporting while improving or maintaining the usefulness of the information reported to investors. As part of the ongoing initiative, the Board will add to its agenda a series of narrow-scope projects that stakeholders have identified as opportunities to simplify GAAP in a relatively short time period.

The Exposure Draft—including instructions on how to submit comments by November 18, 2014—is available at www.fasb.org. Stakeholders also can provide feedback by using the electronic feedback form available on the [FASB website](#).

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