

In depth

A look at current financial reporting issues

29 November 2021



Accounting for SaaS arrangements – disclosures



At a glance

PwC New Zealand refreshed an In depth newsletter previously covering the two agenda decisions made by the IFRS Interpretations Committee (IFRIC) published in 2019 and 2021 in relation to the accounting on certain costs of SaaS arrangements.

This publication provides examples of disclosures where:

- A. an entity's analysis of all SaaS arrangements in light of the 2021 IFRIC agenda decision has been completed and adjustments have been made in the financial statements; and
- B. an entity has not yet had sufficient time to complete an analysis of its SaaS arrangements in light of the 2021 IFRIC agenda decision.



When is an IFRIC agenda decision effective?

IFRIC agenda decisions often provide explanatory material that provides new information ‘that was not otherwise available and could not otherwise reasonably have been expected to be obtained’. Therefore, changes applied in response to an agenda decision often result in voluntary changes in accounting policy being changes that arise from ‘new information’.

The IFRIC stated in its March 2019 IFRIC Update that: “... an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The Board expects that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change)”.

Entities will need to apply judgement to determine what ‘sufficient time’ is in this context. This judgement is entity-specific and should take into consideration

the complexity of the entity’s existing arrangements, whether additional information needs to be collected for the implementation of the new policy or to provide disclosures, or whether processes need to be modified. We expect that, in many cases, sufficient time would be a matter of months, but it is unlikely that it would extend for more than a year. Entities should consider the views of any relevant securities regulators as part of making this judgement.

Voluntary changes in accounting policies are applied retrospectively, except to the extent that it is impracticable. We expect that it is only in limited circumstances that it will be impracticable to apply a voluntary change in accounting policy retrospectively. Determining whether retrospective application is impracticable or not requires judgement.



When is the 2021 IFRIC agenda decision effective?

The 2021 agenda decision is effective immediately (as if it were an adjusting subsequent event for entities with 31 March 2021 year ends), however, as the IFRIC has stated, entities are entitled to sufficient time to determine the impact and implement any changes.

Where an entity’s analysis of all SaaS arrangements has been completed and adjustments have been made in the financial statements, these adjustments are treated as a voluntary change in accounting policy and applied retrospectively. Compliance with the disclosure requirements as set out in IAS 8 paragraph 29 (refer to Appendix A) is required and consideration should also be given to whether significant judgements made in implementing this IFRIC agenda decision should be disclosed in accordance with IAS 1 paragraph 122 (refer to Appendix A).

Where an entity has not yet been able to complete its analysis of its SaaS arrangements as it has not yet had sufficient time to do so and these SaaS arrangements are material, this fact should be prominently disclosed in its financial statements. This is similar to the disclosure requirements set out in IAS 8 paragraph 30 in respect of other accounting pronouncements issued but not yet effective except that entities should disclose the key judgements made. In this case, the reason(s) as to why it has not had sufficient time to adopt the IFRIC agenda decision in the current financial period. The entity should also discuss its plan for considering the IFRIC agenda decision and the expected implementation time.



The following are examples of disclosures which could be made. These will need to be tailored for each specific situation:

A. An entity's analysis of all SaaS arrangements has been completed and adjustments have been made in the financial statements

Change in accounting policy

The Group previously capitalised costs incurred in configuring or customising a supplier's [certain suppliers'] application software in [a/certain] cloud computing arrangement(s) as intangible assets as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected term(s) of the cloud computing arrangement(s). Following the publication of IFRS Interpretations Committee (IFRIC) agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement* in March 2021 (and ratified by the International Accounting Standards Board (IASB) in April 2021), the Group has reconsidered its accounting treatment and adopted the [principles]/[guidance] set out in the IFRIC agenda decision, which is to recognise those costs as intangible assets only if the activities create an intangible asset that the Group controls and the intangible asset meets the recognition criteria. Costs that are not capitalised as intangible assets are expensed as incurred unless they are paid to the supplier(s) (or subcontractors of the supplier) of the cloud-based software to significantly customise the cloud-based software for the Group [and any other reasons that apply to the Group] (i.e., such services are not [distinct]/[separable] from the Group's right to receive access to the supplier's cloud-based software). In the latter case, the costs paid upfront are recorded as [a] prepayment(s) for services and amortised over the expected term(s) of the cloud computing arrangement(s).

As a result of this change in accounting policy, the Group has determined that certain costs relating to the implementation of the cloud-based software should

be expensed when they were incurred, as the amounts were [paid to third parties which were not subcontracted by the supplier of the cloud-based software] / [incurred internally and did not create separate intangible assets controlled by the Group] / [paid to the supplier(s) of the cloud-based software and did not create separate intangible assets controlled by the Group] / [any other reasons that apply to the Group]. In addition, the Group also reclassified certain costs paid to the supplier(s) of the cloud-based software to significantly customise the cloud-based software for the Group from intangible assets to prepayments. The change in accounting policy has been applied retrospectively and comparative information has been restated. [[If retrospective application has a material effect on balance sheet at the beginning of the preceding period] The Group has also presented a third balance sheet.] Please refer to information below for the impact on the financial statements:

[Disclose quantitative impact of the change in accounting policy in accordance with IAS 8 paragraphs 29(c) and (d)]

Consideration of additional disclosure – significant judgements

Consider whether the assessments above involve significant judgements and whether this warrants disclosure in the financial statements as required by IAS 1 paragraph 122 (refer to Appendix A).





B. An entity has not yet been able to complete its analysis of its SaaS arrangements as it has not yet had sufficient time to do so

The Group has capitalised costs incurred in configuring or customising a supplier's [certain suppliers'] application software in [a/certain] cloud computing arrangement(s) as intangible assets (entities may wish to disclose the full quantum of SaaS configuration or customisation costs capitalised and to be analysed if known, e.g., 30 June 2021 – NZ\$xx,xxx,000; 30 June 2020 – NZ\$xx,xxx,000; 1 July 2019 – NZ\$xx,xxx,000) as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected term(s) of the cloud computing arrangement(s). Following the publication of IFRS Interpretations Committee (IFRIC) agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement* in March 2021 (ratified by the International Accounting Standards Board (IASB) in April 2021), the Group has commenced a review of these capitalised costs to determine whether they would need to be expensed or reclassified as prepayments. The IFRIC concluded that costs incurred in configuring or customising software in a cloud computing arrangement can be recognised as intangible

assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred unless they are paid to the supplier(s) (or subcontractors of the supplier) of the cloud-based software for the Group [and any other reasons that apply to the Group] (i.e., such services are not [distinct]/[separable] from the Group's right to receive access to the supplier's cloud-based software). In the latter case, the costs paid upfront are recorded as [a] prepayment(s) for services and amortised over the expected term(s) of the cloud computing arrangement(s).

At the time of finalising the 30 June 2021 financial statements, the review was still in progress because [entities to provide reason(s) as to why it has not had sufficient time to adopt the IFRIC agenda decision in the current financial period]. [Discussion of the Group's plan for considering the IFRIC agenda decision] The Group expects to implement the updated accounting policy in the next financial period.





Appendix A – Disclosure requirements – extracts from the accounting standards

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

29. When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

- (a) the nature of the change in accounting policy;
- (b) the reasons why applying the new accounting policy provides reliable and more relevant information;
- (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;
- (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30. When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

31. In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new IFRS;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the IFRS is required;
- (d) the date as at which it plans to apply the IFRS initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

IAS 1 Presentation of Financial Statements

40A. An entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:

- (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

122. An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.



Need more information?

If you wish to discuss this or any other financial reporting related matter, please contact your usual PwC contact or one of the following financial reporting specialists:



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