



The Association of  
Accountants and  
Financial Professionals  
in Business

January 27, 2025

Mr. Jackson Day, Technical Director  
Financial Accounting Standards Board  
801 Main Avenue  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 2024-ED400, Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software***

Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software* (Proposed Update).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

The Committee is supportive of the Board's intent to improve the operability of the internal-use software guidance through targeted improvements and an overall modernization of the language and terminology used throughout Subtopic 350-40 given the evolution of software development methods. We have had the opportunity to participate in stakeholder outreach throughout the project and we are pleased to see our collective feedback has been considered in the Proposed Update. In particular, we recognize that the proposed amendments introduce certain concepts into Subtopic 350-40 that take into consideration the fact that the risks and uncertainties associated with software development costs for software-as-a-service (SAAS) are similar to, and in some cases the same as, the risks and uncertainties associated with software developments costs for external-use software under Subtopic 985-20. While we believe there is merit to scoping out SAAS development entirely from Subtopic 350-40 and into Subtopic 985-20 given the economic similarities between SAAS and software that is sold, leased, or otherwise marketed externally,

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we understand the Board has already considered and dismissed that wholesale change in favor of targeted improvements to Subtopic 350-40. However, to strengthen the connection between the two related Subtopics, we believe the Proposed Update should include a more explicit connection to the concept of technological feasibility in the proposed amendments related to significant development uncertainty.

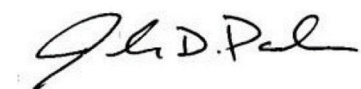
Overall, we support the proposed removal of the software development project stages and the related amendments to incorporate guidance for website development costs into Subtopic 350-40. We have some observations and concerns about the application of significant development uncertainty judgments, the proposed requirements for separate presentation of cash paid for software costs in the statement of cash flows, and the usefulness of the illustrations in the Proposed Update.

Please refer to Appendix I for detailed responses to the questions for respondents and Appendix II for proposed illustrations to include in the implementation guidance.

\* \* \* \* \*

We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "J.D. Paul". The signature is written in a cursive, flowing style.

Josh Paul  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
jpaul@paloaltonetworks.com

## Appendix I – Questions for Respondents

### Overall

**Question 1:** *The amendments in this proposed Update would make targeted improvements to Subtopic 350-40.*

- a. *Do you agree with the proposed amendments? Please explain your reasoning.*
- b. *Are the proposed amendments clear and operable? Please explain your reasoning.*
- c. *Would the proposed amendments clarify and improve the application of Subtopic 350-40? Please explain your reasoning.*
- d. *Do you anticipate that the proposed amendments would result in a significant change in outcome? For example, would the proposed amendments result in the same level of capitalization of internal-use software or a decrease or an increase in the level of capitalization? Is that outcome appropriate? Please explain your reasoning.*
- e. *What costs would be incurred to apply the proposed amendments? If significant, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs, as well as whether you expect the proposed amendments to result in any reduction of costs.*
- f. *Alternatively, would you have preferred that the Board further pursue the single model as described in paragraphs BC45–BC49? Please explain your reasoning.*

**Response:** Overall, we agree with the proposed amendments and in general, they are clear and operable; however, we have included specific feedback on the judgments surrounding significant development uncertainty in our response to Question 3 and a few additional considerations below. We believe the proposed amendments improve the application of Subtopic 350-40 by modernizing and future-proofing the guidance with the removal of software development project stages and by introducing concepts about the risks and uncertainties of software development for SAAS projects, which was not previously considered in this Subtopic. We believe the Proposed Update provides an opportunity to establish greater consistency in the capitalization of software development costs and to significantly improve the usefulness of financial reporting outcomes as well as investors’ understanding of costs expensed directly versus those capitalized.

We expect a significant change in outcomes for many SAAS companies that currently capitalize software costs in accordance with Subtopic 350-40; however, we are aware that today many SAAS companies analogize to the concept of technological feasibility within Subtopic 985-20 when assessing whether it is probable that the project will be completed under Subtopic 350-40 and therefore do not capitalize to the same extent (or at all) as companies that are applying Subtopic 350-40 in its current state. We expect companies that analogize to Subtopic 985-20 and expense software development costs today to continue to do so under the Proposed Update. Beyond this, we do not anticipate that the proposed amendments would result in a significant change in outcomes because we believe the Proposed Update provides the right level of subjectivity and judgment to allow entities to continue with their existing capitalization models, processes, and approaches. For example, we do not anticipate changes in the capitalization of software development costs for internal-use software that is not commercialized, such as a developed enterprise resource planning software.

Regarding costs to apply the proposed amendments, we do not anticipate that entities that already engage in capitalized software activities and have established processes would incur significant costs to apply the proposed amendments. However, there will be additional costs to comply with the proposed amendments to separately present cash paid for capitalized software costs accounted for under Subtopic 350-40 as investing cash outflows; refer to our response to Question 4 for specific concerns on the disaggregation of cash and noncash items.

Initially, there were members of the Committee who supported the development of a single model; however, the overall direction of the proposed amendments is aligned with similar outcomes due to the addition of the significant development uncertainty concept and as such, the Proposed Update addresses the views of those Committee members.

In addition to our responses to specific questions below, we observed a few opportunities and considerations for improved clarity in the Proposed Update.

- The proposed addition of paragraph 350-40-15-1A places undue emphasis on the evaluation of an asset that incorporates both software and tangible components. It suggests that this is a new evaluation rather than a reiteration of existing practice under Subtopic 360-10. Paragraphs BC37 and BC38 indicate the Board's intent and expectation that the proposed amendments would not change existing practice, but the inclusion of new language in the Proposed Update suggests that this is a new requirement to consider and apply and we are concerned that it will have the opposite effect of the Board's intention. We recommend removing the proposed amendment and relying on the discussion in paragraph BC38 which says "when software is critical to or enhances the functionality of related PP&E, entities often account for those software costs as one unit of account with the related PP&E."
- We welcome the inclusion of examples and illustrations in the implementation guidance and we believe they are incredibly useful in illustrating the application and intent of the proposed guidance. In the Proposed Update, we observed that the examples did not fully address or illustrate how judgments around novel, unique, unproven functions and features or significant performance requirements were or could be resolved. In each example, there is simply a statement of fact that management has made a determination. Given the critical nature of the evaluation around significant development uncertainty, we believe it would be useful for preparers and practitioners to understand how those judgments are made in various fact patterns. We also noted that the Basis for Conclusions does not include any additional context or discussion about the types of evaluations or considerations that would lead to resolving the various judgments related to significant development uncertainty. We have included two proposed illustrations (one of which was previously considered by the Staff) for your consideration in Appendix II. We believe the examples provide additional fact patterns requiring judgment in the interpretation of the probable-to-complete threshold.
- We also suggest providing an example where a software development company generally expenses all costs associated with the development of software they monetize as a SAAS offering.

Today in practice, certain SAAS companies expense all software development costs monetized as a SAAS offering and under the Proposed Update we expect more SAAS companies will begin to expense all SAAS development costs.

#### *Removal of Project Stages*

**Question 2:** *The proposed amendments would remove all references to software development project stages throughout Subtopic 350-40. As a result, the proposed amendments would require all entities to determine when to begin capitalizing software costs by evaluating whether (a) management has authorized and committed to funding the software project and (b) the probable-to-complete recognition threshold has been met. Do you foresee any operability or auditability concerns with removing the references to project stages? Please explain your reasoning.*

**Response:** We are supportive of the proposed amendments to remove all references to software development project stages throughout Subtopic 350-40. We agree with the Board’s conclusion that the evolution of methods used to develop software (e.g., waterfall versus agile) makes it challenging to apply the software development project stages in the current guidance. We understand the Board considered whether to maintain the software development project stages when a linear software development method is utilized and consider separate requirements for non-linear software development; we agree with the conclusion that such a distinction would add unnecessary cost and complexity.

#### *Significant Development Uncertainty*

**Question 3:** *If there is significant uncertainty associated with the development activities of the software (referred to as “significant development uncertainty”), the probable-to-complete recognition threshold described in paragraph 350-40-25-12(c) would not be considered to be met. There may be significant development uncertainty if the software being developed has novel, unique, unproven functions and features or technological innovations or if the significant performance requirements have not been identified or continue to be substantially revised.*

- a. *Do you foresee any operability or auditability concerns with determining whether there is significant uncertainty associated with the development activities of the software? Please explain your reasoning.*
- b. *The proposed amendments would define performance requirements as what an entity needs the software to do (for example, functions or features). Is the definition of performance requirements clear and operable? Please explain your reasoning.*

**Response:** We appreciate the Board’s efforts to acknowledge and incorporate the risks and uncertainties associated with software development into the recognition criteria in the Proposed Update. We have the following three recommendations for consideration.

- First, we suggest a more explicit linkage to the current guidance for development of external-use software. In many cases, the development activities for SAAS, including risks, are not different

from the risks of developing software to be delivered. This could be accomplished by revising paragraph 350-40-05-1D to discuss the expectation of similar outcomes for similar software to be delivered (external-use) and SAAS (internal-use).

- Second, we suggest the explicit inclusion of the threshold of technological feasibility. We acknowledge, paragraph BC32 states that the Board specifically avoided using the term “high-risk development issues” because it would introduce a new term into Subtopic 350-40; however, “technological feasibility” is a known and understood term within Subtopic 985-20 and we believe it would allow preparers and practitioners the opportunity to rely on existing knowledge and terminology and it would provide greater consistency in the overall application of U.S. GAAP. We believe the explicit connection to, and inclusion of, technological feasibility in the Proposed Update would minimize the risk of capitalizing amounts that otherwise would be expensed under a lower threshold. There was some discussion within the Committee of whether the probable-to-complete threshold should be replaced with technological feasibility. While some members agreed, others were concerned that it would lead to expensing of internal-use software that would otherwise be capitalized under a probable-to-complete threshold.
- Third, we suggest the inclusion of language that acknowledges and accepts reasonable and consistent judgments in the assessments of whether significant uncertainty associated with development activities has been resolved and whether the probable-to-complete recognition threshold has been achieved.

Regarding the definition of “performance requirements,” we are concerned with the overall operability and cost to audit when it comes to the interpretation of “substantially revised.” We believe the potential range of interpretation around both what constitutes substantial and what constitutes a revision is wide, which would lead to inconsistent application of the probable-to-complete threshold. As discussed in our response to Question 1, there are opportunities to improve the usefulness of the illustrations in the Proposed Update to provide a deeper understanding of how to evaluate and consider this judgment.

In addition, we note that the probable-to-complete threshold does not contemplate recoverability of the costs incurred in the software development process. The likelihood or ability of an entity to complete a software development project does not mean that there is a future economic benefit associated with the costs incurred. Further, if there is no future economic benefit associated with the costs incurred, we question the value in capitalizing such amounts. We acknowledge that the significant development uncertainty concept introduced in the proposed amendments mitigates some of the risk of capitalizing amounts that may not have a future economic benefit; however, it does not take into account recoverability or future economic benefits. For certain software projects, we believe it is reasonable to assume that the amounts capitalized are recoverable or have a future economic benefit (e.g., an enterprise resource planning project); however, such an assumption may not be reasonable when recovery is dependent on external sales to third parties. Therefore, we recommend that the Board consider adding to the probable-to-complete threshold a consideration of the likelihood of and ability to recognize a future benefit.

Finally, we support the carve out in paragraph 350-40-25-12A that allows certain software projects to bypass the significant development uncertainty criteria. However, we are concerned that this language will be interpreted narrowly in actual practice such that only projects related to the customization of an enterprise resource planning system **using a developed solution** will be subject to the carve out. If this were the case, we believe there would be a significant decrease in the capitalization of software that is developed for internal purposes under the Proposed Update in comparison to current practice. We believe this would be the case whether the criterion is significant development uncertainty or technological feasibility, as suggested in this letter. Rather than establishing a carve out by providing a single example, we believe the Board should establish a principle that is the basis for the carve out. We suggest that the Board consider excluding projects from the evaluation of significant development uncertainty (or technological feasibility as suggested in this letter) when the following criteria are met:

- The computer software being developed is part of the infrastructure for an entity's internal operations and processes or is a customer-facing tool that complements the delivery of the entity's products and services (e.g., a mobile banking application).
- The computer software being developed does not include novel, unique, unproven functions and features or technological innovations.

If the Board does not incorporate this suggestion, we recommend the Board consider adding an incremental example that illustrates how the carve out would apply to the internal development of software that will not be offered for sale. We think it is important to illustrate that the carve out can be applied to software projects other than the implementation and customization of enterprise resource planning systems and also could be applicable to the internal development of software that is not based on a developed solution. We have drafted a suggestion for your consideration in Appendix II, Example Y: Development without Considering Significant Development Uncertainty.

#### *Presentation and Disclosure*

**Question 4:** *The proposed amendments would require an entity to classify cash paid for capitalized software costs accounted for under Subtopic 350-40 as investing cash outflows in the statement of cash flows and to present those cash outflows separately from other investing cash outflows, such as those related to property, plant, and equipment (PP&E). Similar to cash paid for internally developed PP&E, cash paid for software costs could include certain expenditures related to employee compensation.*

- a. *For preparers and practitioners, are the proposed presentation requirements operable in terms of systems, internal controls, or other similar considerations? What auditing challenges, if any, do you foresee related to the proposed presentation requirements? Please explain your reasoning.*
- b. *For investors, would the proposed presentation requirements provide decision-useful information? How would this information be used in your investment and capital allocation decisions? Please explain your reasoning.*
- c. *The proposed presentation requirements would not include cash outflows incurred to implement a hosting arrangement that is a service contract. Those cash outflows are typically classified as operating cash flows due to the separate presentation requirements in paragraph 350-40-45-3,*

*which originated in Accounting Standards Update No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (see paragraph BC64). Is it necessary to change the current classification of those costs to be consistent with the proposed presentation requirements? Please explain your reasoning.*

**Response:** We believe the proposed presentation requirement is generally operable in terms of systems and internal controls that exist to support the process of determining amounts to capitalize. However, the ability to disaggregate between cash and noncash may present operational challenges depending on the overall methodology used. From an auditing perspective, the same challenges that exist with software capitalization under the existing guidance (whether Subtopic 350-40 or Subtopic 985-20) in terms of validating the completeness and accuracy of the capitalized amounts and the reasonableness of any assumptions applied in the capitalization model would exist when auditing the outcomes of the proposed amendments.

One key consideration for investors regarding the proposed amendment to separately present cash paid for software costs is that there may be significant noncash components included in amounts capitalized for software projects. For example, employee costs are commonly a large component of costs incurred to develop software and that includes stock-based compensation, which is a noncash item. If an investor is expecting to have a complete understanding of amounts capitalized by assessing the cash paid for capitalized software costs, there will be a disconnect and the decision usefulness of the information may not achieve the intended goal. We also note that the ability to disaggregate cash versus noncash for various types of capitalized costs may present operational challenges when simplified approaches are used to determine the amounts to be capitalized. For example, if an entity applies a standard costing methodology, such as X% of an employee’s time multiplied by a fully burdened compensation rate (including stock-based compensation), it would be difficult to distinguish between cash and noncash. We believe the usefulness of cash paid for capitalized software is questionable and we recommend the Board consider whether it would be more useful to disclose the amount of costs capitalized for software development and the related amortization.

Regarding the current presentation requirements for cash outflows incurred to implement a hosting arrangement that is a service contract, we do not believe it is necessary to change the classification to align with the proposed amendments despite the conceptual inconsistency. We are supportive of the rationale and Basis for Conclusions in Accounting Standards Update 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)*, which requires payments for capitalized implementation fees to be presented in the same manner as payments for the hosting arrangement itself (i.e., operating activities).

Lastly, we are aware that the Board has a research project related to Statement of Cash Flows on its agenda and it may be more beneficial to address cash flow presentation considerations for internal-use software as part of that project rather than introducing proposed amendments in this Proposed Update that may be subsequently modified as part of a more comprehensive Statement of Cash Flows project.



**Question 5:** *The Board considered but dismissed two potential disclosures that would have required entities to disaggregate internal-use and external-use capitalized software costs. One alternative would have required an entity to disclose the total amount of internal-use and external-use software costs capitalized during the period. The second alternative would have required an entity to provide a rollforward of the beginning to ending balance of net capitalized software costs (including additions, amortization, impairments, and disposals). These alternatives differ from the proposed cash flow presentation requirements because, among other reasons, they would include both internal-use and external-use capitalized software costs and noncash costs capitalized.*

- a. For preparers and practitioners, how would the operability and costs of these disclosure alternatives compare with the proposed cash flow presentation requirements (described in Question 4)?*
- b. For investors, how would the decision usefulness of these disclosure alternatives compare with the proposed cash flow presentation requirements? How and when would the information provided by each of the disclosure alternatives influence investment and capital allocation decisions?*

*For investors, is the information that you currently receive about capitalized internal-use and external-use software costs sufficient? If not, how would receiving additional information about capitalized internal-use and external-use software costs affect your analysis? How does your analysis differ between capitalized internal-use software costs and capitalized PP&E?*

**Response:** In considering the alternative to disclose the total amount of internal-use and external-use software costs capitalized during the period, we noted that the operability and costs of this disclosure likely would be minimal because the necessary processes, systems, and internal controls would already be in place to support the process of determining amounts to capitalize so there should be sufficient data available to produce the alternative disclosure. That said, the decision usefulness of such information would be limited without the additional context of the useful life associated with the capitalized software costs and any subsequent measurement considerations, such as impairments.

The alternative to disclose a rollforward would add operational cost into the financial reporting environment, but those costs would likely be one-time costs to establish appropriate processes to capture the required information and any ongoing costs to maintain and govern the process would likely be minimal. However, we believe that a rollforward would introduce a level of detail that could lead to unnecessary “noise” if projects are started and dropped. We do not believe the costs outweigh the benefits when considering the rollforward alternative.

In both cases, we believe the alternative disclosures that were dismissed would provide more decision-useful information to an investor than the proposed requirements for separate cash flow presentation because they would provide a complete view of the gross amounts capitalized (i.e., both cash and noncash) during the period. The Committee also discussed a third alternative to disclose the gross amounts capitalized and accumulated amortization, which is similar to the current disclosures for PP&E. Again, we believe such a disclosure would provide more decision-useful information to an investor than the proposed amendments requiring cash outflows.

While we acknowledge that these alternative disclosures likely would be *more* decision useful, we are not convinced that they are the *right* disclosures. We note that the Board’s recently issued *Invitation to Comment – Recognition of Intangibles* has a stated goal of understanding what information about intangibles an investor utilizes (or would utilize) for its analyses and how that information influences the investor’s capital allocation decisions. We recommend the Board take advantage of the stakeholder feedback that will be shared in response to the invitation to comment to develop a more holistic approach to disclosure requirements for all intangibles, including capitalized software development costs.

#### *Website Development Costs*

**Question 6:** *The proposed amendments would supersede the guidance in Subtopic 350-50 and incorporate website-specific development costs guidance from that Subtopic into Subtopic 350-40.*

- a. *Would the proposed amendments be operable, and do you foresee any auditability challenges?*
- b. *Would the proposed amendments have a significant effect on practice? Please explain your reasoning.*
- c. *The Board considered but dismissed an approach that would have retained Subtopic 350-50 and replaced any reference to stages in Subtopic 350-50 with the term activities (for example, replace costs incurred in the planning stage with costs incurred during planning activities). Would you prefer this approach, and would it be more operable and auditable? Please explain your reasoning.*

**Response:** We believe the incorporation of website-specific development costs into Subtopic 350-40 as part of the proposed amendments is operable and we do not foresee any auditability challenges. On the whole, we are not aware of a pervasive use of the existing guidance on website development costs in the current environment and as such, we do not believe there would be any significant effect on practice as a result of the proposed amendments.

#### *Transition and Effective Date*

**Question 7:** *The proposed amendments could be applied either prospectively or retrospectively.*

- a. *For preparers and practitioners, are the proposed transition requirements operable, and do you foresee any auditability challenges? Please explain your reasoning. If the proposed transition requirements are not operable, please explain what transition method would be more appropriate and why.*
- b. *For investors, would the information required to be disclosed by paragraph 350-40-65-4(d) through (e) be decision useful? Please explain your reasoning.*

**Response:** We appreciate the flexibility to select either prospective or retrospective application and we believe it is important to have both options. The choice allows preparers to evaluate the most practical approach and deliver the most decision-useful information to investors. We do not anticipate any auditability challenges with either transition method.

**Question 8:** *In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain your reasoning.*

**Response:** We believe a timeframe of at least one year would be needed to implement the proposed amendments given the potential impact to recognition, measurement, and presentation and disclosure related to software development costs. As mentioned, we do not anticipate significant changes in outcomes for most entities; however, an implementation of at least one year should suffice and allow for appropriate consideration of any necessary process and/or system changes.

The Committee is supportive of the Board following its typical practice to allow other than public business entities additional time to adopt the proposed amendments; we would not be opposed to a different effective date for those entities.

We are supportive of early adoption.

#### *Private Company Considerations*

**Question 9:** *The proposed amendments would apply to all entities, including private companies. Do you agree? Are there any private company considerations, in the context of applying the guidance in the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies, that the Board should be aware of in developing a final Accounting Standards Update? Please explain your reasoning.*

**Response:** Generally, we are supportive of consistent requirements for private companies.

## **Appendix II – Proposed Illustrations**

For your consideration, we suggest inclusion of additional illustrations for implementation of the proposed guidance relating to 1) “the significant performance requirements of the computer software have not been identified, or the significant performance requirements continue to be substantially revised” and 2) “for certain software projects...the probable-to-complete recognition threshold...can be evaluated without having to consider significant development uncertainty.”

### ***Example X: Development with Substantial Revision of Performance Requirements***

*A software company is in the process of internally developing X-Crowd, which is a mobile application that will allow users to see how crowded a restaurant or store is based on users' real-time input with a designation of the level of traffic (e.g., high, medium or low). This functionality is not currently available in the market; however, the company believes it has the technical expertise to develop the functionality using the agile software development method.*

*On October 30, 20X1, management reviewed the initial product requirements document and authorized funding for the development of X-Crowd. A cross-functional team continued to ideate, write and release code, and experiment. The product requirements document changed from its first draft and management approved the second draft on December 1, 20X1. Based on historical experience, the company has an expectation that the product requirements document will be continuously updated based on user feedback as the software is developed and tested.*

*On December 15, 20X1, X-Crowd was released for testing with targeted users. During the testing, software bugs were identified and other feedback was provided by users to enhance the application. A visual graphic was also incorporated into the application. The product requirements document was further updated to capture the incorporation of the visual graphic, which was considered a significant change. The product requirements document was approved again on March 1, 20X2. The product was further developed, tested and launched with the enhancements on April 15, 20X2.*

*The company assesses whether the internal and external costs to develop the application meet the capitalization requirements in paragraphs 350-40-25-12(b) and 25-12(c), as follows:*

- a. The company determined that management authorized and committed to the project on October 30, 20X1 when it reviewed the initial product requirements document and supported the ongoing development efforts even though the product requirements document was not finalized and underwent updates and approvals on December 1, 20X1 and again on March 1, 20X2. The company considers the initial product requirements document approval to be evidence of management authorization as it demonstrates a commitment to develop software. However, the initial product requirements document does not demonstrate that the requirements of the software are finalized. This is determined through continuous development and testing and is evidenced by subsequent updates to the product requirements document.*
- b. On December 15, 20X1, the company determined that there is significant uncertainty associated with the development activities of the software as the requirements of the application are*

*expected to change during user testing. This is based on experience with historical application development at the company.*

- c. On March 1, 20X2, the company determined that it has resolved the significant uncertainty associated with the development activities by identifying the performance requirements and determining that those performance requirements will not continue to be significantly revised. Therefore, the company concludes that it is now probable that the project will be completed and the software will be used to perform the function intended.*

*Therefore, the company begins capitalization of eligible costs on March 1, 20X2. Additionally, the presentation requirement in paragraph 350-40-45-1A applies to cash paid on or after March 1, 20X2, for capitalized software costs.*

#### ***Example Y: Development without Considering Significant Development Uncertainty***

*A financial services company plans to develop a new mobile banking application for its customers to view account balances and execute transactions. The application will be available to customers at no cost. The mobile application is a platform that facilitates the delivery of the company's banking services to its customers. The capabilities of the application are not new, novel or otherwise unproven.*

*On January 31, 20X1, as part of a review of proposed software projects, management received a detailed explanation of the plan to develop the mobile banking application, including the specific functionality and features the application will have, and approved funding for internal development of the application.*

*The company assesses whether the internal and external costs to develop the application meet the capitalization requirements in paragraphs 350-40-25-12(b) and 25-12(c), as follows:*

- a. The company determines that management authorized and committed to the software project on January 31, 20X1, when it approved the funding for internal development of the application.*
- b. As of January 31, 20X1, the company determines that it is probable that the project will be completed, and the software will be used to perform the function intended because the company has internal resources with the appropriate expertise to develop the software and the company has developed similar internal applications in the past. As the software being developed does not have novel, unique, unproven functions and features or technological innovations, the company concludes that, in accordance with paragraph 350-40-25-12A, no further evaluation of significant development uncertainty is required and the probable-to-complete threshold has been met.*

*Therefore, the company begins capitalization of eligible costs on January 31, 20X1. Additionally, the presentation requirement in paragraph 350-40-45-1A applies to cash paid on or after January 31, 20X1, for capitalized software costs.*