Grant Thornton

Snapshot

FASB issues targeted improvements to accounting for internal-use software

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Contents

The FASB issued ASU 2025-06, *Targeted Improvements to the Accounting for Internal-Use Software,* to modernize the accounting for costs incurred to develop software for internal use that are in the scope of ASC 350-40*, Intangibles – Goodwill and Other: Internal-Use Software*. The amendments were prompted by stakeholders who encouraged the Board to better align the existing guidance with incremental and iterative software development processes (for example, agile or sprint) that are more common today compared to sequential development that was common when the existing guidance was issued.

The amendments are effective for all entities for annual reporting periods beginning after December 15, 2027 and for interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual reporting period.

A. Overview

The requirements in ASC 350-40 to capitalize software costs, which are based upon software project development stages (that is, preliminary project stage, application development stage, and post-implementation/operation stage), originated with the AICPA's 1998 Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. More recently, however, stakeholders informed the FASB that entities have largely moved away from prescriptive and sequential development methods that followed a linear development process through project stages (such as the waterfall method) in favor of incremental and iterative approaches, which break down projects into smaller development segments that are individually developed and continuously change throughout the overall software project (such as the agile method). Because these incremental and iterative approaches do not clearly align with the software development project stages in ASC 350-40, entities faced challenges in determining when to begin capitalizing internal-use software costs.

To address this difficulty, the FASB issued the amendments in ASU 2025-06 to clarify and modernize the accounting for internal use-software in ASC 350-40, primarily by removing references to project stages in ASC 350-40 and adding two conditions that are required before internal software costs can be capitalized:

a. Management, along with the relevant authority, must authorize and commit to funding a computer software project; and

b. It must be "probable" that the project will be completed and the software will be used to perform the function intended (the "probable-to-complete recognition threshold").

The scope of ASC 350-40 was largely unaffected by the amendments, except for the incorporation of the recognition requirements for website-specific development costs from ASC 350-50, *Intangibles – Goodwill and Other: Website Development Costs*, which was superseded by the amendments. The types of costs that are eligible or ineligible for capitalization were not updated as part of the amendments. Similarly, the guidance on subsequent measurement for software costs capitalized remains unchanged by the amendments. The amendments also clarify that entities should apply the property, plant, and equipment disclosures required in ASC 360-10 to costs capitalized under ASC 350-40.

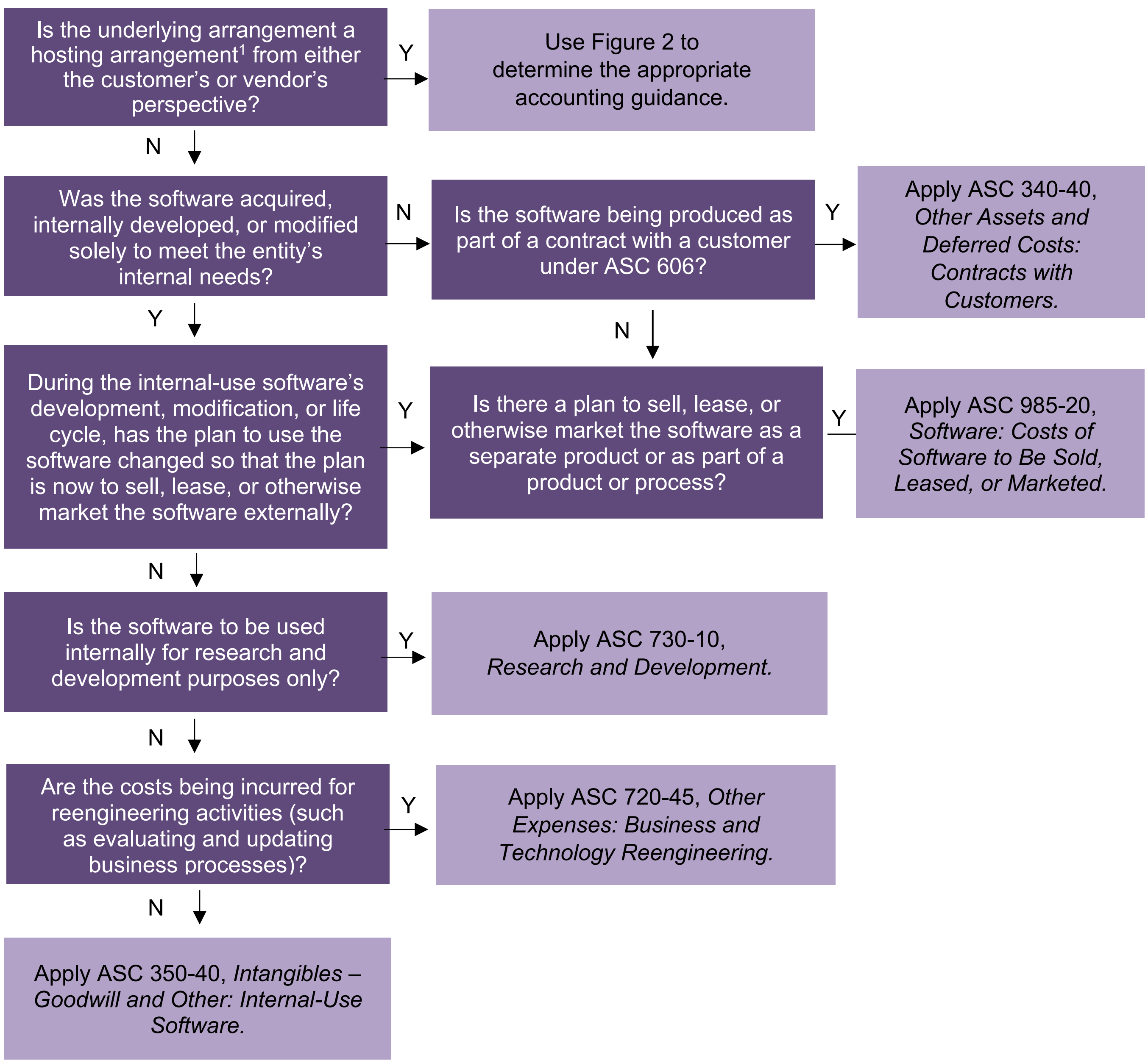
B. Scope

The amendments in ASU 2025-06 apply to all entities subject to the internal-use software guidance in ASC 350-40 and to all entities that account for website development costs in accordance with ASC 350-50.

Internal-use software is software that is acquired, developed, or modified solely to meet an entity's internal needs, including software-as-a-service (SaaS), as long as no substantive plan exists or is being developed to market the software externally. ASC 350-40 also includes subsections covering implementation costs of a cloud computing arrangement that is a service contract. The scope of ASC 350-40 is largely unaffected by the amendments in ASU 2025-06, other than the incorporation of the recognition requirements for website-specific development costs from ASC 350-50. In addition, ASC 350-40 continues to exclude the costs of software to be sold, leased, or marketed, the accounting for which remains unchanged and still falls within the scope of ASC 985-20, *Software: Costs of Software to Be Sold, Leased, or Marketed*.

The following figure illustrates how an entity should determine which guidance to apply to software-related costs, including costs that are within the scope of ASC 350-40 to which the amendments in ASU 2025-06 apply.

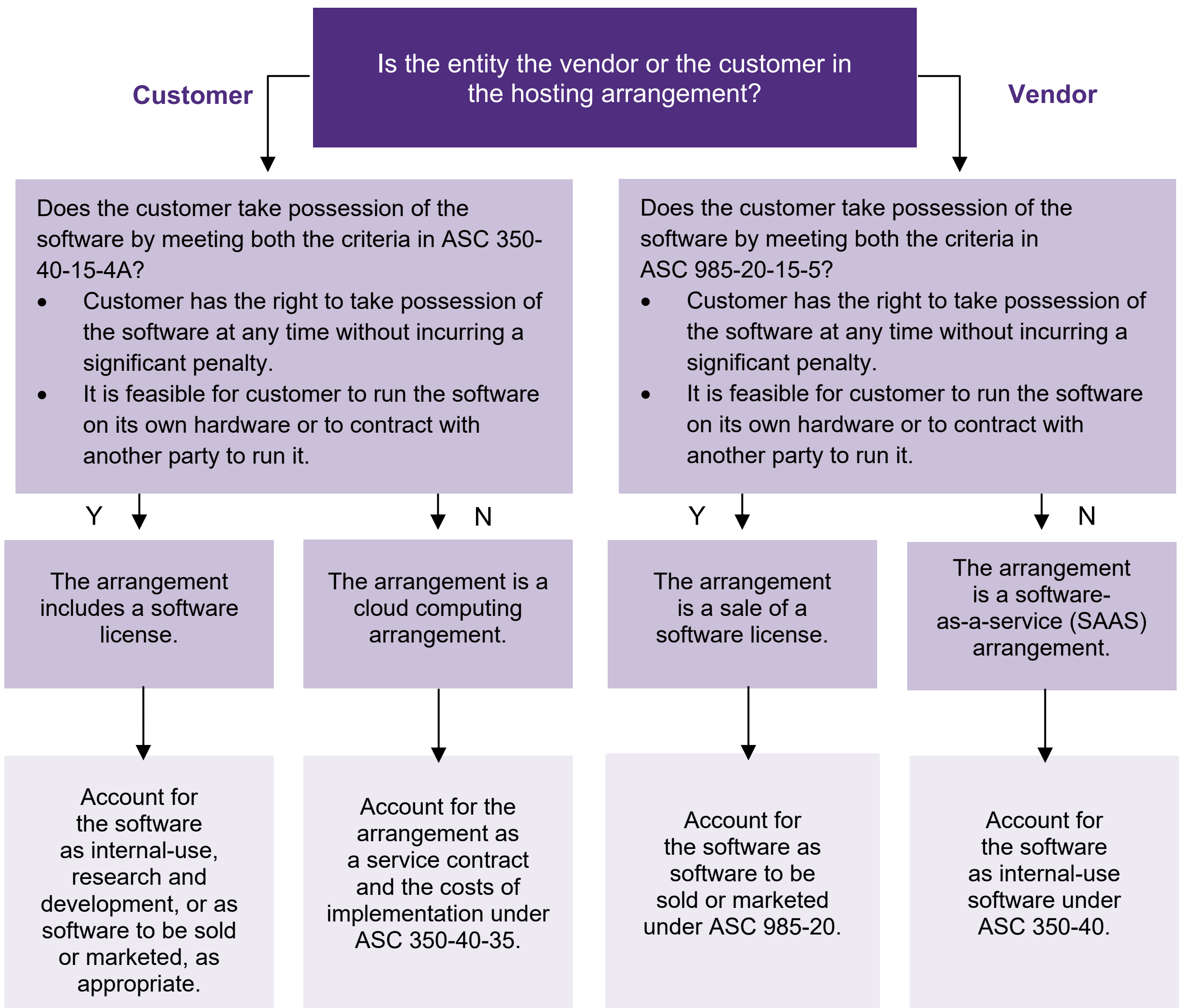
Figure 1: Determining the appropriate accounting to apply to software-related costs



[1]The phrase "hosting arrangement" can describe the overall transaction from either the customer's or the vendor's perspective. In this publication, however, the term "cloud computing arrangement" describes a hosting arrangement from the customer's perspective, whereas the term "software-as-a-service (SaaS)" describes the same transaction from the vendor's perspective. Some hosting arrangements fall within the guidance in ASC 350-40 and therefore are subject to the amendments in ASU 2025-06. See Figure 2 below for a summary of the accounting for a hosting arrangement.

Figure 2 is a summary of the accounting considerations for a hosting arrangement to determine which types of arrangement costs would fall within the scope of ASC 350-40 and, accordingly, would be subject to the amendments in ASU 2025-06.

Figure 2: Determining the appropriate accounting to apply to a hosting arrangement



D. Amendments to the capitalization threshold

Capitalization threshold

The amendments in ASU 2025-06 replace the capitalization of internal-use software costs based upon project stages (preliminary project, application development, and post-implementation phases) with a capitalization threshold, which requires entities to begin capitalizing internal-use software costs when both of the conditions in ASC 350-40-25-12 are met, as follows.

ASC 350-40-25-12

Capitalization of costs shall begin when both of the following occur:

...

b. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project. Examples of authorization and commitment to funding a computer software project include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or a commitment to obtain the software from a third party.

c. It is probable that the project will be completed and the software will be used to perform the function intended (referred to as the probable-to-complete recognition threshold). In evaluating whether the probable-to-complete recognition threshold has been met, an entity shall assess whether there is significant uncertainty associated with the development activities of the software (referred to as significant development uncertainty) in accordance with paragraph 350-40-25-12A.

The assessment of the “probable to complete” recognition threshold may require entities to use significant judgment. The amendments in ASU 2025-06 specifically link the term “probable” to its definition in the Master Glossary, as follows.

Probable

The future event or events are likely to occur.

Grant Thornton insight: ‘Probable’ judgments

The term “probable” used in the probable-to-complete recognition threshold criterion in ASC 350-40 is a determination that a future event or events are likely to occur. The term “probable” is used throughout the FASB’s Codification and should be applied consistently with how the term is applied in other areas of U.S. GAAP. Accordingly, entities will need to use similar judgments when determining probability for the amendments in ASC 350-40 as in the other areas of GAAP. In practice, whether the probable threshold has been met is generally considered to be a high likelihood threshold of occurrence.

Significant development uncertainty

When determining whether the probable-to-complete recognition threshold is met, entities are required to evaluate whether significant development uncertainty exists for internal-use software development projects. If significant development uncertainty exists, the probable-to-complete recognition threshold would not be met, and internal-use software costs would not be capitalized until such uncertainty is resolved. The amendments in ASC 350-40-25-12A indicate that significant development uncertainty exists if either one of the following factors is present:

a. The software requires technological innovations or novel, unique, or unproven functions or features, and the uncertainty related to those elements has not been resolved through coding and testing; or

b. The significant performance requirements have not been identified or continue to be substantially revised.

ASC 350-40-25-12A

If significant development uncertainty exists, the probable-to-complete recognition threshold in paragraph 350-40-25-12(c) is not met until that significant development uncertainty has been resolved. Significant development uncertainty exists if either of the following factors is present:

a. The software being developed has technological innovations or novel, unique, or unproven functions or features, and the uncertainty related to those technological innovations, functions, or features, if identified, has not been resolved through coding and testing.

b. The significant performance requirements of the software have not been identified, or the identified significant performance requirements continue to be substantially revised.

For some types of software projects, the assessment of whether significant development uncertainty exists will be straightforward, such as illustrated in Example 1 (see paragraphs 350-40-55-5 through 55-8). For other types of software projects, the assessment will be more complex, such as illustrated in Example 3 (see paragraphs 350-40-55-13 through 55-17). If significant development uncertainty does not exist or if there was significant development uncertainty that has been resolved, an entity shall evaluate the requirements in paragraph 350-40-25-12 to determine when to begin capitalizing costs.

Refer to the Appendix in this publication for Examples 1 and 3 referenced above.

Grant Thornton insight: Significant development uncertainty

The amendments in ASC 2025-06 require entities to use consistent judgment when determining whether software functions or features are novel, unique, or unproven and to determine whether significant performance requirements are no longer being substantially revised. If the significant performance requirements are being or have been revised, it may be difficult to determine when the entity will stop substantially revising the requirements and when the development uncertainty is resolved. Entities will need to work closely with their software development teams to understand and apply appropriate judgement to the software project's progress to determine when significant development uncertainty no longer exists.

Novel or unproven software

The assessment as to whether the software being developed has novel, unique, or unproven functions or features is similar to the assessment when determining whether a detailed program design has been reviewed for high-risk development issues for software in the scope of ASC 985-20. When significant development uncertainty exists due to technological innovations or novel, unique, or unproven functions or features, an entity must demonstrate, through coding and testing, that these functions or features are no longer unproven before capitalization can begin.

Grant Thornton insight: Capitalization expectations and SaaS entities

The Basis for Conclusions in ASU 2025-06 indicates that the Board expects that capitalization will not change significantly for most types of projects. However, SaaS entities developing software with novel or unproven functions or features may capitalize fewer costs since the probable-to-complete threshold would not be met if the software being developed meets either of the criteria in ASC 350-40-25-12A. These criteria may exist more frequently for SaaS compared to other types of internal-use software because, similar to software that will be marketed for sale externally within the scope of ASC 985-20, customer-focused software is more likely to be novel or innovative.

Significant performance requirements

To assist with the assessment of whether the significant performance requirements have not been identified, the Board added a definition for "performance requirements" to the Master Glossary as part of the ASU 2025-06 amendments. This definition, shown below, largely aligns with the description of performance requirements within the Master Glossary definition of the preliminary project stage, which was removed by the ASU 2025-06 amendments.

Performance Requirements

Performance requirements are what an entity needs the software to do (for example, functions or features).

When determining whether there is significant development uncertainty associated with a software project, it is important to remember that only those performance requirements that are considered "significant" must be identified and evaluated. Whether performance requirements are significant to a particular software project is a matter of judgment. However, we would expect entities to apply these judgments in a consistent manner.

Refer to the Appendix for illustrative examples from the Codification for applying the capitalization threshold in ASC 350-40-25-12 through 25-12A to different types of internal-use software development as follows:

- Example 1: Implementation and Customization of an Enterprise Resource Planning System
- Example 2: Development of a Mobile Application
- Example 3: Development of a Novel Technology

Unit of account

When applying the capitalization guidance in Subtopic 350-40, the applicable unit of account is each software project. However, the term “software project” is not defined within the Codification. Entities need to exercise judgment in determining what constitutes a software project, taking into account their specific facts and circumstances.

Grant Thornton insight: Software project as a unit of account

Determining what constitutes a “software project” will require judgment. We believe this determination will depend on an entity’s software development processes; the types of software being acquired, developed, or modified; and the existing accounting policies used to identify a software project. Those existing processes and policies would be unlikely to change upon adoption of the amendments in ASU 2025-06. Entities should also consider whether a function or feature of a software project is independent from the functions or features of other software projects currently in development when determining the unit of account for a software project.

Costs to be expensed as incurred

Prior to meeting the capitalization requirements in ASC 350-40-25-12 and 25-12A, internal and external costs incurred in developing internal-use software should be expensed as incurred. Consistent with existing guidance, internal and external training costs are not considered internal-use software development costs and should be expensed as incurred. Similarly, data conversion costs, other than costs to develop or obtain software that allows for access to or conversion of old data by new systems, continue to be expensed as incurred.

Internal processes and controls

While some of an entity’s existing processes and controls are likely to be relevant upon adoption of the amendments, entities should evaluate whether new processes and controls are needed, in particular, those related to the probable-to-complete capitalization threshold. Furthermore, entities will no longer need processes and controls related to the identification of project stages.

Grant Thornton insight: Internal processes and controls updates

As a result of the amendments to the internal-use software capitalization guidance, including the criteria in ASC 350-40-25-12 through 25-12A for capitalizing development costs, entities subject to ASC 350-40 will need to evaluate whether changes to their internal processes and controls are necessary. Specifically, entities will need to evaluate whether their processes and controls are sufficient to determine whether management has approved and committed to funding a software project, and to monitor and to determine whether the probable–to-complete threshold has been met. Entities will also need to ensure that processes and controls are in place to identify software projects' significant performance requirements.

Subsequent measurement

Impairment

ASC 350-40-35-3 provides indicators that the capitalization requirements in paragraphs ASC 350-40-25-12 and 25-12A are no longer being met for software being developed, at which time, an entity should stop capitalizing costs and should apply the impairment guidance in ASC 350-40-35-1 to 35-3. Under ASC 350-40-35, previously capitalized costs associated with software projects that are no longer probable of completion should be reported at the lower of their carrying amount or fair value, less costs to sell.

ASC 350-40-25-13

If the capitalization requirements in paragraphs 350-40-25-12 through 25-12A are no longer met for software being developed, no further costs shall be capitalized, and guidance in paragraphs 350-40-35-1 through 35-3 on impairment shall be applied to existing balances.

The guidance on impairment, which remains mostly unchanged under the amendments, requires entities to apply the subsequent measurement guidance in ASC 360-10, *Property, Plant and Equipment: Overall,* to determine whether the carrying amount of a long-lived asset or asset group exceeds its fair value. An impairment loss should be recognized for any excess.

Disclosure requirements

The amendments clarify that the property, plant, and equipment disclosure requirements in ASC 360-10 apply to all capitalized software costs accounted for under ASC 350-40. The guidance within ASC 360-10 requires entities to disclose the following information:

- Depreciation expense
- Balances of major classes of depreciable assets
- Accumulated depreciation
- A general description of the method(s) used in computing depreciation

The amendments also clarify that the disclosure guidance within ASC 350-30, *Intangibles – Goodwill and Other: General Intangibles Other than Goodwill*, specifically excludes software costs capitalized under ASC 350-40.

Entities must also continue to consider whether the disclosure guidance in the following GAAP Topics should be applied for software costs capitalized under ASC 350-40:

- ASC 275, *Risks and Uncertainties*
- ASC 730-10, *Research and Development: Overall*
- ASC 235, *Notes to Financial Statements*.

E. Website development costs

Given the similarities in the nature of and scope for website development and internal-use software, the Board determined that separate guidance for website development was unnecessary. The guidance for website development costs in ASC 350-50 was superseded and incorporated into the internal-use software guidance in ASC 350-40. Additionally, Example 4: Development of a Website was added to the Codification to demonstrate how the guidance in ASC 350-40 may be assessed for the development of a website; refer to the Appendix to see Example 4.

F. Effective date and transition

All entities are required to adopt the amendments for annual reporting periods beginning after December 15, 2027 and for interim reporting periods within those annual reporting periods. Early adoption is permitted in an interim or annual reporting period if the financial statements have not yet been issued or been made available for issuance. An entity that early adopts the amendments in an interim period should adopt them as of the beginning of the annual reporting period that includes that interim reporting period.

Entities should adopt the amendments in ASU 2025-06 using a prospective, modified, or retrospective approach, as outlined in the following table.

Method of transition	Details of transition
Prospective	Apply amendments to new software costs incurred for all projects, including costs incurred for in-process projects, during annual reporting periods beginning after the date the amendments are adopted.
Modified	(a) Apply amendments prospectively to new software costs incurred, excluding costs described in (b) below, during annual reporting periods beginning after the date the amendments are adopted. (b) For an in-process project that does not meet the capitalization requirements in paragraphs ASC 350-40-25-12 through 25-12A as of the adoption date but that met the capitalization requirements before that date, derecognize capitalized costs through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period of adoption.

Retrospective	Apply amendments retrospectively through a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first period presented.

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Appendix

Illustrative examples

The amendments include examples illustrating how an entity evaluates the capitalization of costs incurred for an internal-use software project under the guidance within ASC 350-40-25-12 through 25-12A.

Example 1 illustrates an assessment as to when an entity's internal-use software development project has met the probable-to-complete threshold.

Example 1 – Implementation and Customization of an Enterprise Resource Planning System

ASC 350-40-55-5

On February 1, 20X3, a professional services company starts internal discussions to transform its information technology by implementing an enterprise resource planning system to support finance, human resources, accounting, and client relationships.

ASC 350-40-55-6

After researching different solutions and performing its due diligence procedures, management executes a contract with a third party on August 1, 20X3, to implement and customize a hybrid solution that offers on-premises software and cloud computing services for the enterprise resource planning system. Within this solution, the third party offers different functionality and features, and the company will have to make customization decisions throughout the development process to select which functionality and features it wants included.

ASC 350-40-55-7

The company assesses whether the internal and external costs to implement and customize the enterprise resource planning system meet the capitalization requirements in paragraphs 350-40-25-12 through 25-12A, as follows:

a. As part of its assessment under paragraph 350-40-25-12(c), the company evaluates whether there is significant development uncertainty in accordance with paragraph 350-40-25-12A. As of August 1, 20X3, the company determines that:

   1. It has identified the significant performance requirements and does not expect to continue to substantially revise those requirements because the only expected customization is selecting from existing functionality and features.

   2. The software being developed does not have technological innovations or novel, unique, or unproven functions or features because the company has selected a developed solution.

Therefore, as of August 1, 20X3, the company determines that significant development uncertainty does not exist.

b. The company evaluates the requirements in paragraph 350-40-25-12 to determine when to begin capitalizing software costs:

1. The company determines that management authorized and committed to funding the software project on August 1, 20X3, when it executed the contract with the third party.
2. Considering all other relevant facts and circumstances (for example, the company has engaged an established and experienced third party to implement and customize the software), as of August 1, 20X3, the company determines that it is probable that the software project will be completed and the software will be used to perform the function intended.

ASC 350-40-55-8

As a result, on August 1, 20X3, the company determines that the capitalization requirements in paragraphs 350-40-25-12 through 25-12A are met, and it begins capitalizing eligible software costs, including those related to implementation and customization of the on-premises software license and those related to implementation of the cloud computing service features of the hybrid solution.

Example 2 demonstrates an entity's ongoing assessment of the capitalization threshold when the software project's significant performance requirements were not initially identified.

Example 2 – Development of a Mobile Application

ASC 350-40-55-9

A 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 on the basis of a user's real-time input. An internet connection is required to be able to access the application.

ASC 350-40-55-10

On February 1, 20X1, management approved funding for internal development of the application. However, the company has not yet identified what functions and features would be included in the application. Through November 30, 20X1, the company continues to develop the functions and features of the application, including getting feedback on preliminary product versions from user groups and modifying the development of those functions and features to incorporate the feedback. On December 1, 20X1, management determines that it has identified the significant performance requirements (the significant functions and features it needs the application to have), and it does not anticipate substantial changes to those requirements. Throughout the development of X-Crowd, management determines that the application does not have technological innovations or novel, unique, or unproven functions or features.

ASC 350-40-55-11

The company assesses whether the internal and external costs to develop the application meet the capitalization requirements in paragraphs 350-40-25-12 through 25-12A, as follows:

a. As part of its assessment under paragraph 350-40-25-12(c), the company evaluates whether there is significant development uncertainty in accordance with paragraph 350-40-25-12A. As of February 1, 20X1, the company determines that:

   1. It has not yet identified the significant performance requirements.

   2. The software being developed does not have technological innovations or novel, unique, or unproven functions or features.

Therefore, as of February 1, 20X1, the company determines that significant development uncertainty exists and, in accordance with paragraph 350-40-25-12A, the software project does not meet the requirements to begin capitalizing software costs in paragraph 350-40-25-12(c).

b. As of December 1, 20X1, the company determines that:

   1. It has identified the significant performance requirements and does not expect to continue to substantially revise those requirements.

   2. The software being developed does not have technological innovations or novel, unique, or unproven functions or features.

Therefore, as of December 1, 20X1, the company determines that significant development uncertainty has been resolved.

c. As of December 1, 20X1, the company evaluates the requirements in paragraph 350-40-25-12 to determine when to begin capitalizing software costs:

   1. The company determines that management authorized and committed to funding the software project on February 1, 20X1, when it approved funding for internal development of the application.

   2. Considering all other relevant facts and circumstances, as of December 1, 20X1, the company determines that it is probable that the software project will be completed and the software will be used to perform the function intended.

ASC 350-40-55-12

As a result, on December 1, 20X1, the company determines that the capitalization requirements in paragraphs 350-40-25-12 through 25-12A are met, and it begins capitalizing eligible software costs.

Example 3 demonstrates an entity’s ongoing assessment of the capitalization threshold when the software being developed contains novel functionality.

Example 3 – Development of a Novel Technology

ASC 350-40-55-13

On January 1, 20X1, a software development company starts discussions to develop software with novel functionality.

ASC 350-40-55-14

On February 1, 20X1, management completes its due diligence procedures, approves a budget to internally develop the software, and allocates an internal development team to start developing the novel software. At the time that the company started discussions and management approved a budget, the software still had novel functionality.

ASC 350-40-55-15

On March 1, 20X3, the company resolves the uncertainty related to the novel functionality through coding and testing. Additionally, on March 1, 20X3, the company determines that it does not expect substantial changes to the identified significant performance requirements (the significant functions and features) included in the software. On April 1, 20X3, the company determines that all substantial testing is completed.

ASC 350-40-55-16

The company assesses whether the internal and external costs to develop the software meet the capitalization requirements in paragraphs 350-40-25-12 through 25-12A, as follows:

a. As part of its assessment under paragraph 350-40-25-12(c), the company evaluates whether there is significant development uncertainty in accordance with paragraph 350-40-25-12A. As of February 1, 20X1, the company determines that:

    1. It has not yet identified the significant performance requirements.

    2. The software being developed has novel functionality and that functionality has not been resolved through coding and testing.

Therefore, as of February 1, 20X1, the company determines that significant development uncertainty exists and, in accordance with paragraph 350-40-25-12A, the software project does not meet the requirements to begin capitalizing software costs in paragraph 350-40-25-12(c).

b. As of March 1, 20X3, the company determines that:

    1. It has identified the significant performance requirements and does not expect to continue to substantially revise those requirements.

    2. The uncertainty related to the novel functionality has been resolved through coding and testing.

Therefore, as of March 1, 20X3, the company determines that significant development uncertainty has been resolved.

c. As of March 1, 20X3, the company evaluates the requirements in paragraph 350-40-25-12 to determine when to begin capitalizing software costs:

   1. The company determines that management authorized and committed to funding the software project on February 1, 20X1, when it approved a budget and allocated an internal development team.

   2. Considering all other relevant facts and circumstances, as of March 1, 20X3, the company determines that it is probable that the software project will be completed and the software will be used to perform the function intended.

ASC 350-40-55-17

As a result, on March 1, 20X3, the company determines that the capitalization requirements in paragraphs 350-40-25-12 through 25-12A are met, and it begins capitalizing eligible software costs. On April 1, 20X3, the company determines that the software project is substantially complete and ready for its intended use because all substantial testing has been completed. Therefore, the company ceases capitalizing eligible software costs on April 1, 20X3, in accordance with paragraph 350-40-25-14.

Example 4 demonstrates an entity's assessment of the capitalization threshold for the development of a website. The example includes a discussion of capitalization eligibility for website development costs, with references to the guidance relocated from ASC 350-50 to ASC 350-40 in the amended guidance.

Example 4 – Development of a Website

ASC 350-40-55-18

An animal rescue organization starts discussions on June 15, 20X5, to develop a website that will be used to share information with users of the organization, including hours of operation, contact details, animals available for adoption, and standard adoption procedures.

ASC 350-40-55-19

After researching different website developers and performing its due diligence procedures, management executes a contract with a third party on August 1, 20X5, to develop a website for the organization. The third party is an established website developer and offers different templates that the organization can use to create its website. In addition to website development fees paid to the third party, the organization incurs costs:

a. To obtain and register an internet domain

b. To input content into the website

c. To develop initial graphics for the website

d. To register the website with internet search engines

e. For ongoing website hosting fees.

ASC 350-40-55-20

The organization assesses whether the internal and external costs to develop the website meet the capitalization requirements in paragraphs 350-40-25-12 through 25-12A, as follows:

a. As part of its assessment under paragraph 350-40-25-12(c), the organization evaluates whether there is significant development uncertainty in accordance with paragraph 350-40-25-12A. As of August 1, 20X5, the organization determines that:

    1. It has identified the significant performance requirements and does not expect to continue to substantially revise those requirements because the website will be created from existing templates that the organization can use to share the information described in paragraph 350-40-55-18.

    2. The website being developed does not have technological innovations or novel, unique, or unproven functions or features because it will be developed from existing templates.

Therefore, as of August 1, 20X5, the organization determines that significant development uncertainty does not exist.

b. The organization evaluates the requirements in paragraph 350-40-25-12 to determine when to begin capitalizing costs:

    1. The organization determines that management authorized and committed to funding the development of the website on August 1, 20X5, when it executed the contract with the third party.

    2. Considering all other relevant facts and circumstances (for example, the organization has engaged an established and experienced third party to develop the website), as of August 1, 20X5, the organization determines that it is probable that the project will be completed and the website will be used to perform the function intended.

ASC 350-40-55-21

As a result, on August 1, 20X5, the organization determines that the capitalization requirements in paragraphs 350-40-25-12 through 25-12A are met, and it begins capitalizing eligible costs. In evaluating which costs are eligible for capitalization, the organization determines the following:

a. Fees paid to the third party for services to develop the website are evaluated for capitalization in accordance with paragraph 350-40-30-1.

b. Costs incurred to obtain and register the internet domain are evaluated for capitalization in accordance with paragraph 350-40-25-17J.

c. Costs incurred to input content into the website are expensed as incurred in accordance with paragraph 350-40-25-17G.

d. Costs incurred to develop initial graphics for the website are evaluated for capitalization in accordance with paragraph 350-40-25-17H.

e. Costs incurred to register the website with internet search engines are expensed as incurred in accordance with paragraph 350-40-25-17I.

f. Ongoing website hosting fees are expensed over the period of benefit in accordance with paragraph 350-40-25-17F.

Contacts

Sandy Heuer
Partner, Grant Thornton LLP
Partner, Grant Thornton Advisors LLC
T +1 612 677 5122
E sandy.heuer@us.gt.com

Christine Janis
Partner, Grant Thornton LLP
Partner, Grant Thornton Advisors LLC
T +1 415 365 3438
E Christine.Janis@us.gt.com

Ashley Cilento
Director, Grant Thornton LLP
T: + 1 732 516 5507
E: Ashley.Cilento@us.gt.com