

EARLY IMPRESSIONS

FASBs' Accounting Standard Update (ASU 2025-06)

Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40)



1. FOREWORD

ASC 350-40 provides explicit guidance on costs incurred for computer software developed or obtained for internal use. Subtopic 350-40, Internal-Use Software, illustrates various stages of software development to define the accounting principles for such costs, i.e., whether they are to be expensed or capitalized.

In today's fast-paced digital economy, internal-use software has become one of the most critical assets for organizations across industries. From enterprise resource planning systems to advanced analytics platforms and AI-enabled tools, software drives operational efficiency, innovation, and competitive advantage. Yet, the accounting guidance governing these investments has often lagged behind the realities of modern software development.

With the issuance of **ASU 2025-06, Intangibles - Goodwill and Other - Internal-Use Software**, the Financial Accounting Standards Board (FASB) has taken an essential step toward aligning accounting standards with the way technology is developed, implemented, and managed in contemporary organizations. By eliminating rigid stage-based guidance and introducing a principle-based "probable-to-complete" threshold, the standard provides greater clarity, flexibility, and alignment with real-world practices, while preserving the rigor needed for reliable financial reporting.

This publication summarizes the requirements of ASU 2025-06 towards **accounting for and Disclosure of Software Costs**, which may be relevant for all entities that incur internal-use software costs, including website development costs. The amendments will be effective for all entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2027.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

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2. BACKGROUND

Under the existing guidance on accounting of cost incurred towards internal use software, FASB's ASC Subtopic 350-40, illustrates various stages of development i.e. the preliminary project stage, the application development stage, and the post-implementation stage. Whether cost incurred need to be expensed off or capitalized is dependent upon nature of the costs and the project stage to which it relates. Applying this guidance is challenging, particularly in an iterative development environment.

The following summarises the existing accounting principles related to costs incurred in different stages of software development:

- **Preliminary project stage:** Conceptual formulation and evaluation of alternatives, determination of the existence of required technology, and final selection of alternatives. Costs incurred during the preliminary project stage shall be expensed as incurred
- **Application development stage:** Design of chosen path, including technology configuration and interfaces, coding, installation to hardware, testing, including parallel processing phase. Costs incurred to develop internal-use computer software and to develop or obtain software that allows for access to or conversion of old data by new systems shall be capitalized. However, training costs and other data conversion costs shall be expensed.
- **Post-implementation/operation stage:** Training costs and maintenance costs incurred during the post implementation stage shall be expensed as incurred.

ASC 350-40 further states that upgrades and enhancements are modifications to existing assets that result in additional functionality. For costs related to specified upgrades and enhancements to internal use software to be capitalized, it must be probable that those expenditures will result in additional functionality.

The amendment in ASU 2025-06 **eliminates** references to the aforesaid prescriptive and **sequential stages of software development** in existing GAAP and require the same recognition guidance for all software within the scope of Subtopic 350-40. The improvement is intended to align the recognition requirements for internal-use software costs with those requirements for software that is licensed, sold, or otherwise externally marketed.

What's not changing with.....



01

Existing accounting requirements for external-use software (i.e., software to be sold or licensed).



02

Type of internal-use software costs can be capitalized (e.g. data conversion/migration, training and software maintenance costs will continue to be expensed as incurred.)



03

Cessation of internal-use software cost capitalization (i.e., when the software is 'substantially complete and ready for its intended use').

3. KEY AMENDMENTS INTRODUCED BY ASU 2025-06

A. Recognition Principles

Software development cost capitalization threshold

As per the existing guidance, software development costs incurred for internal-use software are capitalized once the preliminary project stage is complete. With the key focus to remove all references to a sequential software development method (referred to as “project stages”) throughout Subtopic 350-40, the ASU instead provides the following two criteria’s in ASC 350-40-25-12 that must be met for entities to commence **capitalizing software costs**:

- Management, with the relevant authority, implicitly or explicitly **authorizes and commits** to funding a computer software project. **(Criterion 1)**
- 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’). **(Criterion 2)**

With a shift in software development process from a sequential/linear process in oriented with several stages to agile software development basis (i.e., lightly planned and completed through a series of shorter time-frame development sprints), there is need to align the guidance as amended by ASU which can be applied to all types of software development.

This change aligns the accounting model with how business decisions are made in practice: **“Projects are capitalized when they become sufficiently defined, authorized, and technically feasible - not simply when they pass a predefined stage.”**



Amendment in ASU to change the cost capitalization threshold will result in commencement of software development cost capitalization solely by assessing the remaining criteria in Section 350-40-25 irrespective of software development method used (i.e. agile, waterfall, a hybrid of those, or otherwise).

Once Criterion 1 and Criterion 2 are fulfilled all software development costs would be capitalized. Before (1) and (2) are met, all software development costs would be expensed as incurred.

Elimination of the existing staging guidance will result in consistency requiring the same recognition threshold for all internal-use software, regardless of the development method.

Some of the judgments eliminated may be replaced with new judgments around the ‘probable-to-complete’ threshold.

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Key Provisions	Implementation matters
Criterion 1 Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding.	• For example: • 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.
1. Foreword 2. Background 3. Key Amendments Introduced by ASU 2025-06 4. Uniquis Perspective of amendments in ASU 5. Appendix Criterion 2 Probable-to-complete recognition threshold	• As per the amendment in ASU, this criterion would not be met when there is “significant uncertainty associated with the development activities of the software (referred to as ‘significant development uncertainty’).” • The ASU provides the following factors that may be indicative of significant development uncertainty: • The software being developed has novel, unique, unproven functions and features or technological innovations and the uncertainty related to those technological innovations, functions, or features, if identified, has not been resolved through coding and testing OR • The significant performance requirements (such as functions or features) of the computer software have not been identified, or the significant performance requirements continue to be substantially revised. • The probable-to-complete recognition threshold is not met until the significant development uncertainty has been resolved. • Board clarified that for certain internal-use software projects e.g. to customize and implement established third-party software such as enterprise resource planning (ERP) implementations; evaluation of the two indicators related to significant development uncertainty may not be necessary. • It is also clarified by Board in the basis for conclusions that the amendments in ASU do not require an entity to identify and resolve all of the software’s performance requirements before it begins to capitalize software development costs but, rather, only those performance requirements that are ‘significant’ and/or are significant and continue to be substantially revised. In other words, entity should not defer eligible cost capitalization for either- • minor performance requirements that have not yet been determined, or • significant performance requirements subject only to further minor revision.



- The FASB expects that the amendments could result in less software development costs qualifying for capitalization for software developed for revenue-generating activities that will be delivered via cloud computing or software-as-a-service arrangements.
- This is because as per the amendments entities would require applying judgment in determining whether the software being developed has “novel, unique, unproven functions and features or technological innovations” or uncertainties related to significant performance requirements that make completion of the project improbable.
- This may be more common for software developed for revenue-generating activities than for software developed only for an entity’s internal use [e.g., an ERP system]).

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B. Other Application Matters



Presentation and disclosure requirements

- Disclosures will now be required under ASC 360-10 for all software costs capitalized under ASC 350-40, regardless of how they are presented in the balance sheet (e.g. as intangible assets or property, plant & equipment (PP&E)).
- Entities would be required to disclose the capitalized internal-use software balance and related accumulated amortization as of the reporting date, the amortization expense for the period, and a description of the amortization method applied. These disclosures are intended to enhance consistency and transparency of information provided to investors regarding internal-use software costs.
- The guidance further clarifies that the disclosure requirements in ASC 350-30-50-1 through 50-3 for intangible assets do not apply to software costs capitalized under ASC 350-40.



Effective date of adoption

- The amendments in ASU are effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods in fiscal years beginning after December 15, 2027. Early adoption is permitted.



Transition provisions

Recognizing the diversity in software development practices and system implementation stages across entities, **ASU 2025-07** provides flexibility in transition. Entities may apply the new guidance using one of three permitted approaches—**prospective**, **modified prospective**, or **retrospective**—depending on the nature and readiness of available information.

1 Prospective approach

Under the prospective approach, entities apply the new guidance to software costs incurred beginning on or after the start of the adoption period. All costs recognized prior to adoption continue to be accounted for under the previous guidance, while new and ongoing projects follow the amended requirements from the adoption date onward.

For Example

An entity adopts the amendments on **January 1, 2028**. Costs capitalized before that date remain under the existing model, but any development or implementation costs incurred on or after January 1, 2028, are accounted for under the new guidance.

2 Modified prospective approach

The modified prospective approach provides a balanced transition alternative. Entities apply the new guidance prospectively to software costs incurred after the adoption date for all projects, including those in process. However, if an in-process project as of the adoption date no longer meets the capitalization criteria under the amended guidance (but did under the previous model), the previously capitalized costs are derecognized through a cumulative-effect adjustment to opening retained earnings (or other applicable equity components).

For Example

An entity adopts the new guidance on **January 1, 2028**. One software development project in progress at that date has **USD 500,000** of capitalized costs that would not qualify for capitalization under the new criteria. The entity removes the USD 500,000 from the balance sheet and records a cumulative-effect adjustment to retained earnings as of the adoption date.

3 Retrospective approach

Under the retrospective approach, entities apply the new guidance as if it had always been in effect. This requires restating prior comparative periods and recognizing a cumulative-effect adjustment to opening retained earnings (or other applicable equity components) at the beginning of the earliest period presented.

For Example

An entity presenting financial statements for **2026, 2027 and 2028** elects to apply the guidance retrospectively. It restates its 2026 and 2027 financial statements to reflect the revised capitalization and amortization principles, with any cumulative-effect adjustment recorded to opening retained earnings as of **January 1, 2028**.



Applicability

The amendments in ASU shall apply to all entities, including private companies.



Practical Considerations for selection of transition approach

- In selecting a transition approach, entities should consider factors such as the availability of historical data, the complexity of ongoing projects, and the resources required to restate prior periods.
- The prospective approach offers simplicity and minimal operational disruption; the modified prospective approach balances continuity with compliance, and the retrospective approach provides full comparability but may require significant effort to implement.

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4. UNIQUE PERSPECTIVE OF AMENDMENTS IN ASU

1

Clarity and Alignment

ASU 2025-06 provides clearer guidance on capitalizing software development and implementation costs, particularly in environments combining internal-use, cloud-based, and hybrid solutions. By emphasizing the assessment of significant development uncertainty and aligning capitalization criteria across software types, the amendments help distinguish exploratory or early-stage efforts from development activities that create enduring value.

In Uniquis' view, this clarity supports a more faithful representation of technology investments in financial reporting.

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Company's Action points:

Companies should take proactive steps to implement the guidance effectively. Key actions include:

- Document project authorization and funding commitments.
- Establish objective criteria for when capitalization should begin and end.
- Ensure cost classification distinguishes capitalizable development/customization costs from operational expenses (e.g., content input, hosting, maintenance)
- Provide joint training for finance and technology teams to promote consistent application.

3

Looking Ahead

As organizations adopt AI-driven systems, cloud-native platforms, and low-code development tools, applying ASU 2025-06 principles will require both technical judgment and operational discipline. Companies that integrate these accounting considerations with project lifecycle management will enhance transparency, audit readiness, and the strategic reporting of their digital transformation initiatives

To further support consistent application, the update includes **illustrative examples** offering clear implementation guidance on the amendments. The illustrative examples are added in the **Appendix** section of this publication.

5. APPENDIX

To assist practitioners in understanding and applying the amendments introduced by ASU 2025-06, the FASB has provided a set of following illustrative examples as part of the implementation guidance. These examples demonstrate how the revised criteria for capitalizing software development and implementation costs apply across a range of common scenarios, including hybrid enterprise resource planning systems, mobile applications, software with novel functionality, and template-based website development. The cases highlight key considerations such as the assessment of significant development uncertainty, determination of project authorization and funding, identification of capitalizable versus expensed costs, and the timing of when capitalization should begin and cease. By including these practical illustrations, this Appendix aims to provide readers with a concrete framework for applying the amendments consistently and effectively in real-world situations.

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Example 1:

Implementation and Customization of an Enterprise Resource Planning System

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.

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.

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:

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: 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. 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.

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



- 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.

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.

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Key considerations:

Under ASU 2025-06, capitalization of internal and external costs for implementing software, including hybrid solutions combining on-premises and cloud-based components, depends on the absence of significant development uncertainty, management's authorization and commitment to the project, and the probability that the software will be completed and used for its intended purpose.

- When a pre-developed solution is selected with configurable features, and the project requirements are clearly defined and not expected to undergo substantial revision, significant development uncertainty generally does not exist.
- In such circumstances, costs directly attributable to the implementation and customization of both the on-premises software license and the cloud computing service features may be capitalized.
- Engagement of an experienced third-party implementer further supports the assessment that capitalization criteria are met, providing a practical framework for organizations adopting hybrid enterprise resource planning systems.

Example 2:

Development of a Mobile Application

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.

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.

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:



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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 revise those requirements substantially.
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.

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.



Key considerations:

- Capitalization of internally developed software under ASU 2025-06 begins only after significant development uncertainty has been resolved, that is, when management has identified the software's key functions and features, does not expect substantial revisions, has committed to funding the project, and considers completion probable.
- Early-stage activities, such as defining requirements or refining functionality through user feedback, represent periods of development uncertainty, and related costs should be expensed until these conditions are met.

Example 3:

Development of a Novel Technology

350-40-55-13 On January 1, 20X1, a software development company starts discussions to develop software with novel functionality.

350-40-55-14 On February 1, 20X1, management completes its due diligence procedures, approves a budget to develop the software internally, 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.

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.

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). software costs in paragraph 350-40-25-12(c).

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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 revise those requirements substantially.
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.

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.



Key considerations:

- Under ASU 2025-06, when software includes novel or unproven functionality, the presence of such features generally indicates significant development uncertainty.
- Costs incurred during this period, before technological feasibility is established through successful coding and testing, should be expensed as incurred.
- Capitalization may begin only once the uncertainty associated with novel functionality has been resolved, the significant performance requirements have been identified and are not expected to change substantially, management has authorized and committed to funding the project, and it is probable that the software will be completed and used as intended.
- Capitalization ceases when the software is substantially complete and ready for its intended use, such as upon completion of substantial testing.

Example 4:

Development of a Website

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.

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.

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.

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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.

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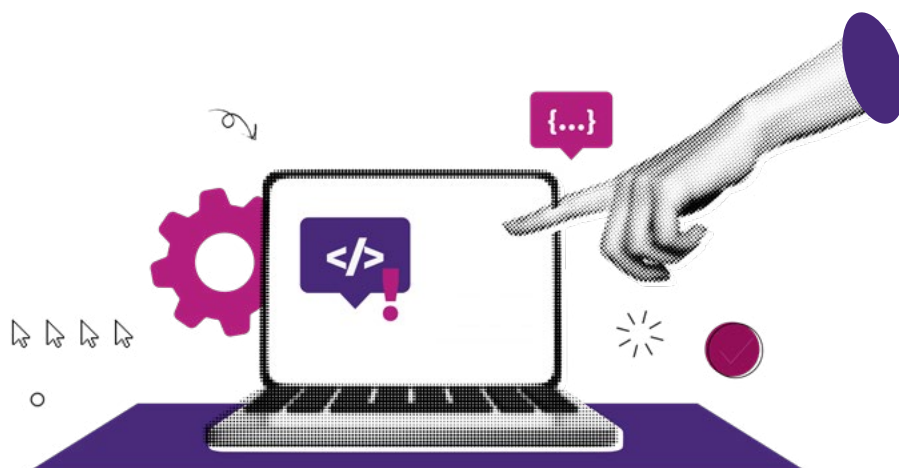
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Key considerations:

- Under ASU 2025-06, the development of a website using existing templates generally does not involve significant development uncertainty, as the underlying technology and functionality are established and not novel.
- Capitalization of costs may commence when management has authorized and committed to the project, it is probable that the website will be completed and used as intended, and the capitalization criteria in ASC 350-40-25-12 through 25-12A are met.
- Fees paid to third parties for website development and costs directly attributable to obtaining and registering the internet domain or creating initial website graphics may qualify for capitalization.
- In contrast, costs related to inputting content, registering the website with search engines, and ongoing website hosting represent maintenance or operational activities and should be expensed as incurred.
- This example reinforces that capitalization depends on both the nature of the costs and the presence or absence of development uncertainty, even for projects involving standard or template-based software solutions.

For more information on the FASB's decision, see the [press release](#) on the FASB's Web site.



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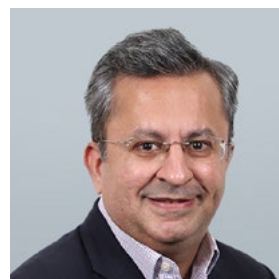
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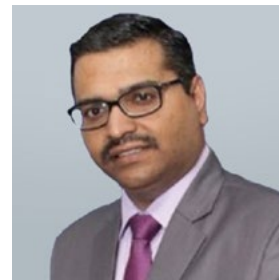
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