**Note that this is completely AI generated and may contain mistakes. Educational purposes only

Accounting Policy — Internal-Use Software (ASC 350-40)

Policy Owner: Controller
Effective Date: [MM/DD/YYYY]
Applies To: All consolidated entities of [Company]
Last Reviewed: [MM/DD/YYYY]

1) Purpose & Scope

Set consistent rules for **capitalizing, amortizing, and impairing** costs to develop or obtain **internal-use software** under **ASC 350-40**.
This policy **does not** cover: software to be **sold/leased/marketed** (ASC 985-20) or **contract costs** (ASC 340-40).

Our fact pattern: 100% of capitalized internal-use software relates to the **SaaS platform we operate to deliver our product**. We do **not** convey a software license to customers. Accordingly, ASC 350-40 applies.

2) Key Definitions

- **Internal-use software:** Software acquired, developed, or modified for the Company's internal needs, including software used to **operate and deliver our hosted SaaS product**.

- **Project stages (ASC 350-40):**

    1. **Preliminary / project stage** (feasibility, vendor evaluation, selection) → **Expense**

    2. **Application development stage** (design, coding, configuration, integration, testing) → **Capitalize**

    3. **Post-implementation / operation** (training, maintenance) → **Expense**

- **Enhancement:** A modification that adds **new functionality** or **extends useful life** → eligible to capitalize (see thresholds).

3) Capitalization Thresholds (Materiality)

- **New project / module: ≥ $100,000** eligible costs (aggregate)
- **Enhancements to existing software: ≥ $50,000** eligible costs
  Costs below thresholds are expensed. Exceptions require Controller approval with written rationale (e.g., mission-critical systems).

4) Cost Guidance — Capitalize vs. Expense

Capitalize (only in Application Development)

- **Internal payroll & fringe** for engineers/DevOps/QA **directly** writing code, configuring, or testing (supported by time tracking or reasonable estimates).
- **Third-party services** directly tied to design, configuration, integration, customization, testing.
- **Development tools/software** if dedicated to the project.
- **Direct materials** and **direct travel** clearly attributable to development.
- **Capitalized interest** (rare) if criteria in ASC 835-20 are met.

Expense (always)

- **Preliminary stage:** research, solution selection, RFPs, PoCs.
- **Post-implementation:** training, documentation, hyper-care support.
- **Data conversion/migration** (extract/cleanse/map/load) — presumed **expense** unless inseparable from development.
- **Maintenance/bug fixes**, performance tuning, minor UI changes that do **not** add functionality or extend life.

- **General overhead** (undifferentiated PMO, product ideation, process redesign without code), recruiting, facilities.

Enhancements vs. Maintenance

- **Enhancement** (adds capabilities or extends life) → **capitalize** if thresholds met.
- **Maintenance** (keeps existing functionality) → **expense**.

5) Useful Life & Amortization (Single Life Election)

- **Method:** Straight-line.
- **Commencement:** When the asset (or independent **module**) is **ready for intended use**.
- **Useful life (single standard): 3 years** for all capitalized internal-use software related to our SaaS platform.
  - Rationale: 3 years aligns with common enterprise SaaS practice given pace of platform refresh and feature deployment.

If future facts indicate a materially different consumption pattern, Management may revise prospectively; changes require Controller approval and documentation.

6) Unit of Account

Use **module / major feature** as the unit when it can be placed in service independently. Begin amortization per module at its go-live date.

7) P&L Classification (Our SaaS Fact Pattern)

Because all capitalized internal-use software is used **directly to operate and deliver our hosted product** and **no license is transferred to customers**:

- **Amortization** is recorded in **Cost of Revenue — Subscription** (or “Cost of revenue — Platform/Product”) to reflect delivery of service to customers.
- If any capitalized software is later used primarily for **internal support functions** (e.g., finance HRIS), its amortization would be recorded in the relevant **operating expense** function (e.g., G&A). *Given our current fact pattern, 100% is recorded in Cost of*

Revenue.

Balance sheet classification: Present capitalized internal-use software in **Property & Equipment** (or **Intangible assets**) per our policy election; apply consistently. Accumulated amortization is presented net.

8) Impairment & Abandonment

Assess at least quarterly (and upon triggering events) for impairment (ASC 350-40 by analogy to ASC 360):

- **Abandonment/Replacement:** Write off remaining **net book value** immediately.
- **Partial impairment:** Reduce carrying amount and adjust remaining amortization prospectively.

9) Controls, Documentation & Approvals

- **Stage-gate memo** for transitions: Preliminary → Development → Post-implementation (Engineering + Accounting sign-off).
- **Time tracking / estimates** for internal labor with documented methodology and periodic true-ups.
- **Vendor invoice review** to confirm eligibility and stage.
- **Go-live memo** per module: readiness, placed-in-service date, single 3-year life start.
- **Enhancement assessment** memos to distinguish enhancement vs maintenance.
- **Quarterly review** for impairments, lives, and completeness/accuracy.

10) Disclosures & Presentation

If material, disclose **gross carrying amount**, **accumulated amortization**, **amortization expense**, and significant judgments (e.g., life). Maintain consistency in presentation and classification.

11) Decision Guide (Quick Reference)

- **Preliminary?** Demos, feasibility, vendor selection → **Expense**
- **Development?** Design, code, config, integration, testing → **Capitalize** (≥ threshold)
- **Post-implementation?** Training, support → **Expense**
- **Enhancement?** Adds functionality/extends life → **Capitalize** (≥ threshold)
- **Maintenance?** Preserve existing function → **Expense**

12) Journal Entry Examples

1. **Monthly internal labor capitalization**
   Dr **Internal-use software — CIP** …… $XX
   Cr **Payroll / Accrued comp** ………… $XX
2. **Third-party implementation invoice**
   Dr **Internal-use software — CIP** …… $XX
   Cr **Accounts payable** ………………… $XX
3. **Place in service (module) & start amortization**
   Dr **Internal-use software** ……………… $XX
   Cr **Internal-use software — CIP** …… $XX
   Dr **Cost of revenue — Subscription** … $YY
   Cr **Accumulated amortization** …… $YY
4. **Abandonment**
   Dr **Loss on abandonment** ……………… $NBV
   Cr **Internal-use software / Accum. amort.** …… $NBV

13) Policy Elections (Apply Consistently)

- **Single useful life: 3 years** for all capitalized internal-use software related to our SaaS platform.
- **P&L classification: Cost of revenue — Subscription** for all amortization under this policy.
- **Unit of account: Module level**; partial go-live permitted.

- **Balance sheet presentation:** [Choose one: **P&E** or **Intangible assets**] for capitalized internal-use software.

14) Boundary with ASC 985-20 (Software Sold/Marketed)

If we **begin licensing** software to customers (on-prem or a hosting arrangement that conveys a license), we must reassess scope. Software intended to be **sold/leased/marketed** falls under **ASC 985-20** and is **out of scope** of this policy.