Software Development / Software Implementation Costs – Capitalize or Expense?[1] (same criteria applies for both Internal Use Software and Cloud Computing Arrangements		
Cost capitalization begins when (1) management has authorized and committed to funding the project[2] and (2) it is **probable** the project will be completed and the software used to perform its intended function (the 'probable-to-complete' threshold)		
Capitalize	• Costs directly attributable to the development / configuration of the software • Fees paid to third-parties for services provided to develop / configure the software • Coding and testing activities • Costs for configuration and customization • Costs to develop or obtain software that allows for access or conversion of old data by new systems	
Expense	• Training costs • Data conversion costs (such as third party or employee time spent physically converting data) • Process of data conversion from an old system to a new one may include purging or cleansing existing data, reconciling the data in the old and new systems, creating new or additional data, and • Converting old data to the new system. • CCA subscription / hosting fees incurred prior to completion of implementation activities • General and administrative costs and overhead costs • Consulting fees during an RFP process to select	
	Financial Statement Presentation	
	Internal Use Software	**Cloud Computing Arrangement**
Asset:	**Capitalized Implementation - Internal Use Software**	**Capitalized Implementation Costs – CCA**
Balance Sheet Category:	Included in L**and, Building, and Equipment** as an Intangible Asset *Capitalized development and implementation costs become part of the cost-basis of the software intangible asset.*	Account **1851** – Capitalized Implementation Costs – CCA Rolls up with Other Assets *Capitalized CCA implementation costs are included in the same line item as a prepayment of the hosting service fees*
Amortization Period:	Amortize over the **estimated useful life** of the software, taking into consideration obsolescence and changing technology. LUC generally amortizes internal use software over no more than X years	Amortize capitalized implementation costs over the **term of the related CCA**. Term includes the initial non-cancelable service term and all of the following: • Periods covered by an option to extend if LUC is reasonably certain to exercise that option • Periods during which the contract is cancellable if LUC is reasonably certain not to exercise its option to cancel • Periods covered by an option to extend (or not to terminate) the service in which exercise of the option is controlled by the vendor
Amortization method:	Straight line	Straight line
Expense classification and Statement of Activity Roll Up:	Include with **Depreciation & Amortization**	**6416 - AMORTIZATION - CAPITALIZED IMPLEMENTATION COSTS – CCA** **Roll Up: Non-Salary Expense** *Amortization of capitalized CCA implementation costs is presented in the same line item as the hosting service fees paid to the cloud service provider*

[1] Updated for **ASU 2025-06**: Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): *Targeted Improvements to the Accounting for Internal-Use Software*

[2] For LUC, "management authorization and commitment to fund a software project" generally is interpreted as beginning once a contract with a third-party for software implementation or software development services is signed.