

# Recent ASUs: Internal-Use Software and Acquisition Accounting Updates

Recent ASUs have brought meaningful changes to how companies account for internal-use software and business acquisitions. This chapter walks through the three-stage development model for internal-use software under pre-ASU 2025-06 GAAP, then shifts to acquisition accounting, including how the treatment differs depending on whether an acquiree is a variable interest entity. Coverage of reverse acquisition scenarios rounds out the discussion, giving practitioners a solid foundation for applying these updates in practice.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

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## LEARNING ASSIGNMENTS AND OBJECTIVES

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### Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

### Course Objectives

- Recognize examples of internal-use software.
- Identify criteria to begin and end capitalization of internal-use software.
- Review how to determine the accounting acquirer in a business combination.
- Recognize how to account for forfeitures related to share-based consideration payable to a customer.
- Recall some of the new disclosures for income taxes required by ASU 2023-09.
- Identify how to measure a crypto asset.
- Review how to measure and record a crypto asset on the balance sheet and income statement.
- Review how to measure and account for a joint venture.
- Recognize the type of entity which is subject to the new disaggregation of expenses disclosures required by ASU 2024-03.
- Identify a new method that is authorized to record treasury stock in accordance with ASC 505.

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## Section 1

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### ESSENTIAL ACCOUNTING STANDARDS UPDATES (ASUs)

#### *Chapter Objective*

After completing this chapter, you should be able to:

- Recognize examples of internal-use software.
- Identify criteria to begin and end capitalization of internal-use software.
- Review how to determine the accounting acquirer in a business combination.
- Recognize how to account for forfeitures related to share-based consideration payable to a customer.
- Recall some of the new disclosures for income taxes required by ASU 2023-09.
- Identify how to measure a crypto asset.
- Review how to measure and record a crypto asset on the balance sheet and income statement.
- Review how to measure and account for a joint venture.
- Recognize the type of entity which is subject to the new disaggregation of expenses disclosures required by ASU 2024-03.
- Identify a new method that is authorized to record treasury stock in accordance with ASC 505.

### SELECTED ACCOUNTING STANDARDS UPDATES (ASUs)

The following is a summary of selected ASUs that the author is including in this course. Please be advised that the ASUs in the text are not in numerical order.

| ASU                                     | Title                                                                                                                                                                                                                                                                     | Effective Date<br>(Non-<br>Public Entities) |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| ASU<br>2023-05                          | Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement                                                                                                                                                                     | 2025                                        |
| ASU<br>2023-08                          | Intangible- Goodwill and Other- Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets                                                                                                                                                           | 2025                                        |
| ASU<br>2023-09                          | Income Taxes (Topic 740): Improvements to Income Tax Disclosures                                                                                                                                                                                                          | 2026                                        |
| ASU<br>2024-03<br>and<br>ASU<br>2025-01 | Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses<br><br>Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures Clarifying the Effective Date | 2027- public<br>business<br>entities only   |
| ASU<br>2025-03                          | Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity                                                                                                                     | 2027                                        |
| ASU<br>2025-04                          | Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share- Based Consideration Payable to a Customer                                                                                                     | 2027                                        |
| ASU<br>2025-06                          | Intangibles—Goodwill and Other—Internal- Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal- Use Software                                                                                                                               | 2028                                        |
| ASU<br>2025-12                          | ASU 2025-12: Codification Improvements                                                                                                                                                                                                                                    | 2027                                        |

## ASU 2025-06: INTANGIBLE—GOODWILL AND OTHER—INTERNAL-USE SOFTWARE (SUBTOPIC 350-40): TARGETED IMPROVEMENTS TO THE ACCOUNTING FOR INTERNAL-USE SOFTWARE

Issued: September 2025

Effective date

The ASU is effective for fiscal years beginning after December 15, 2027. Early adoption permitted.

## Overview

In September 2025, the FASB issued ASU 2025-06, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*.

ASU 2025-06 modernizes U.S. GAAP for internal-use software by doing the following:

- Eliminate stage-based accounting under the previous internal-use model (preliminary/design, application development, post-implementation).
- Introduces a capitalization threshold based on management authorization and probable completion for intended use, considering significant development uncertainties.
- Unifies website development previously found in ASC 350-50 to be part of the internal-use software model under ASC 350-40.
- Clarifies what costs are capitalized vs. expensed, along with subsequent measurement, impairment, and derecognition of such costs.

## Background

Under current (pre-ASU 2025-06) GAAP, entities are required to capitalize development costs incurred for internal-use software depending on the nature of the costs and the project stage during which they occur.

ASC 350-40 describes three sequential stages of internal-use software development and implementation activities (referred to as “project stages”) as follows:

| Existing Pre-ASU 2025-06 GAAP for Internal-Use Software                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Three Stages of Development                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                         |
| Stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Accounting                                                                                                                                                                              |
| <p><b>Preliminary project stage:</b></p> <p>This project stage occurs when an entity considers and defines its software needs and possible solutions, regardless of whether it ultimately pursues a project to develop internal-use software or enter into a CCA.</p> <p>Activities include:</p> <ul style="list-style-type: none"> <li>• Conceptual formulation.</li> <li>• Evaluation of alternatives.</li> <li>• Determination of existence of needed technology.</li> <li>• Final selection.</li> </ul> | <p>Costs are <u>expensed</u>.</p>                                                                                                                                                       |
| <p><b>Application development stage:</b></p> <p>This stage begins after:</p> <ol style="list-style-type: none"> <li>1. The preliminary project stage is complete,</li> <li>2. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project, and</li> <li>3. It is probable that the project will be completed and the software will be used to perform the function intended.</li> </ol>                                                 | <p>Costs are <u>capitalized</u>.</p> <p>Capitalizable costs include direct costs of employees, costs of materials and services, and interest costs incurred during the development.</p> |
| <p><b>Post-implementation operation stage:</b></p> <p>This stage begins when the software project is <u>substantially complete</u> and <u>ready for its intended use</u>, which is analogous to the period after all substantial testing is complete.</p>                                                                                                                                                                                                                                                   | <p>Costs are <u>expensed</u>.</p> <p>Training, maintenance, and ongoing support costs are <u>expensed</u> as incurred.</p>                                                              |

Generally, entities are required to expense costs incurred during the preliminary project stage and to capitalize eligible costs incurred during the application development stage. During the post-

implementation operation stage, entities are required to capitalize eligible costs that add functionality as enhancements and to expense maintenance costs as incurred.

Entities must make various judgments in applying the current guidance for internal-use software, some of which the Board considered in developing the amendments in this Update, including judgments related to determining:

In practice, companies have faced challenges in differentiating between the project stages.

### **FASB exposure draft and feedback**

In October 2024, the FASB issued an exposure draft on internal-use software with the goal of:

- Modernizing the accounting for software costs that are accounted for under ASC 350-40, *Intangibles—Goodwill and Other—Internal-Use Software* (referred to as “internal-use software”), and
- Enhancing the transparency of an entity’s cash flows related to internal-use software costs.

Based on feedback received from a previous 2021 Invitation to Comment (ITC), stakeholders encouraged the FASB to make the project a top priority and better align the accounting with how software is developed. Stakeholders also concluded that the current GAAP guidance on software development is outdated and lacks relevance given the evolution of software development.

Specific comments in response to the ITC included:

- Many entities have shifted from a prescriptive, sequential development method (e.g., waterfall) to an incremental, iterative approach.
- The current internal-use software accounting requirements do not specifically address software developed using an incremental, iterative approach.
- GAAP’s three stages of development are confusing to apply in practice.

As a result, stakeholders stated that challenges in applying the current internal-use software guidance have led to diversity in practice regarding when to begin capitalizing software costs.

Consequently, the FASB decided to make targeted improvements to the internal-use software guidance in ASC 350-40 to improve the operability of the recognition guidance, consider different methods of software development, and enhance transparency of cash outflows for capitalized software costs.

In September 2025, the FASB issued a final statement, ASU 2025-06, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*.

1. The ASU amendments remove all references to the three stages of software development found in existing GAAP's ASC 350-40. Now, the guidance is neutral toward different software development methods, including those entities may use to develop software in the future.
2. According to the FASB, it expects that the ASU 2025-06 amendments will result in:
  - No significant changes in the capitalization of internal-use software costs for most types of software.
  - For software development provided via a cloud computing arrangement (CCA), amendments could result in a decrease in software capitalization.

**Comparison of ASC 350-40 Internal-Use Software: Before and After ASU 2025-06**

The following table compares GAAP for internal-use software before and after ASU 2025-06: