

# Gasb 96 Subscription Based Information Technology Arrangements



Gasb 96 subscription based information technology arrangements represent a significant shift in how governmental entities account for and report subscription-based services. This new standard, issued by the Governmental Accounting Standards Board (GASB), aims to enhance the transparency and consistency of financial reporting in the public sector. With the rise of subscription-based models in the realm of information technology, it is crucial for government entities to understand the implications of GASB 96 on their financial statements and operational practices.

## Understanding GASB 96

GASB 96, effective for reporting periods beginning after June 15, 2022, establishes guidance for the accounting and financial reporting of subscription-based information technology arrangements (SBITAs). This standard applies to governmental entities that enter into contracts for IT services, including cloud computing services, software as a service (SaaS), and other similar arrangements.

## Key Objectives of GASB 96

The primary goals of GASB 96 are to:

1. **Improve Financial Reporting:** Provide a consistent framework for recognizing and reporting subscription-based IT arrangements.
2. **Enhance Transparency:** Ensure that governmental entities disclose relevant information about their SBITAs, making it easier for stakeholders to assess financial health and commitments.
3. **Facilitate Comparability:** Establish uniform accounting practices that allow for better comparison between different governmental entities.

# Scope of GASB 96

GASB 96 applies to all governmental entities engaging in subscription-based IT arrangements, which can include:

- Cloud-based services
- Software licenses (subscription-based)
- Hosting services
- Managed services

However, GASB 96 does not apply to arrangements that involve the purchase of software licenses that do not fall under the subscription model or to those that involve tangible assets.

## Definition of Subscription-Based Information Technology Arrangements

According to GASB 96, an SBITA is defined as a contract that conveys control of the right to use another party's IT software for a period of time in an exchange or exchange-like transaction. This definition underscores the need for a clear understanding of the rights and obligations inherent in these contracts.

## Accounting for SBITAs under GASB 96

The accounting treatment for subscription-based IT arrangements under GASB 96 varies depending on the nature of the arrangement. The standard introduces a systematic approach to recognize and measure subscription costs and related assets and liabilities.

## Recognition and Measurement

### 1. Initial Measurement:

- At the commencement of the subscription term, governmental entities must recognize a subscription asset and a corresponding liability.
- The subscription asset is measured at the present value of subscription payments expected to be made during the contract term.

### 2. Subsequent Measurement:

- The subscription asset is amortized over the term of the contract, similar to how capital assets are treated.
- The liability is reduced as payments are made, and interest may need to be recognized if the arrangement extends over a longer period.

## **Initial and Subsequent Costs**

Costs incurred during the subscription period can be categorized into:

- Fixed Subscription Payments: Regular fees paid for access to the service.
- Variable Payments: Costs that fluctuate based on usage levels or performance metrics.
- Implementation Costs: Expenses related to setting up the service, which may need to be capitalized and amortized.

## **Disclosure Requirements**

GASB 96 emphasizes transparency through comprehensive disclosure requirements. Governmental entities must provide information regarding the nature of the subscription arrangements, their duration, and the significant terms and conditions.

### **Required Disclosures Include:**

- **A description of the SBITA, including any significant terms and conditions.**
- **The total amount of subscriptions payable, including fixed and variable payments.**
- **The unamortized balance of the subscription asset as of the reporting date.**
- **Any rights to use the IT software after the contract term.**

## **Implementation Challenges**

**Adopting GASB 96 can pose several challenges for governmental entities, including:**

- 1. Understanding the New Requirements: Entities may require training and resources to understand the implications of GASB 96 fully.**

**2. Data Collection:** Gathering accurate data on subscription arrangements, payment schedules, and related costs can be complex.

**3. System Updates:** Accounting systems may need upgrades to accommodate the new reporting requirements, which could involve significant investments.

## **Strategies for Successful Implementation**

To navigate the challenges posed by GASB 96, governmental entities can adopt several strategies:

- Training and Education:** Provide staff with training sessions to ensure they understand the new standards.
- Collaboration with IT Departments:** Work closely with IT teams to identify all relevant subscription arrangements and gather necessary data.
- Review Current Contracts:** Assess existing IT service contracts to determine their classification under GASB 96.
- Engage External Experts:** Consider consulting with accounting advisors or firms specializing in governmental reporting to streamline the transition process.

## **Conclusion**

In conclusion, GASB 96 subscription based information technology arrangements marks a pivotal development in governmental accounting and financial reporting. By providing a structured approach to recognizing and reporting

**SBITAs, GASB 96 enhances the transparency and comparability of financial statements, ultimately benefiting stakeholders. As governmental entities move towards adopting this standard, understanding its implications and preparing for its requirements will be crucial for effective compliance and sound financial management.**

**Through careful planning and execution, governmental entities can successfully implement GASB 96 and ensure that they remain accountable and transparent in their financial reporting practices, thereby fostering trust and confidence among the public they serve.**

## **Frequently Asked Questions**

**What is GASB 96 and why is it important for governmental entities?**

**GASB 96 refers to the Governmental Accounting Standards Board Statement No. 96, which establishes accounting and financial reporting requirements for subscription-based information technology arrangements (SBITAs). It is important for governmental entities as it provides a framework for recognizing and reporting these arrangements, ensuring transparency and accountability in financial statements.**

**What types of arrangements are covered under GASB 96?**

**GASB 96 covers subscription-based information technology arrangements that grant governments the right to use software and related services over a specified period. This includes cloud computing and software as a service (SaaS) arrangements.**

**How does GASB 96 differ from previous accounting standards?**

**GASB 96 differs from previous standards by specifically addressing subscription-based arrangements, requiring governments to recognize a right-to-use asset and a corresponding liability on their balance sheets, which was not explicitly covered before.**

**What are the key accounting requirements under GASB 96?**

**Under GASB 96, governments must recognize a subscription asset and a subscription liability at the commencement of the arrangement. The asset is amortized over the term of the subscription, while the liability is reduced as payments are made.**

**When did GASB 96 become effective?**

**GASB 96 became effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. This means that governmental entities should have begun applying its principles in their financial statements for the fiscal year 2023 or later.**

**What are the implications of GASB 96 for financial reporting?**

**The implications of GASB 96 for financial reporting include increased transparency and comparability in how governmental entities report their subscription-based IT arrangements. It encourages more accurate portrayal of liabilities and assets on financial statements.**

**How should governments approach implementation of GASB 96?**

**Governments should conduct a thorough review of their existing subscription-based IT arrangements, assess the terms and conditions of each, and establish processes to accurately measure and recognize the related assets and liabilities in**

**compliance with GASB 96.**

**What challenges might governments face when adopting GASB 96?**

**Governments may face challenges such as identifying all subscription-based arrangements, determining the appropriate measurement of assets and liabilities, and needing to update their accounting systems and training staff to comply with the new standards.**

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**An Implementation Guide may also address issues related to the application of a standard to specific industries. Generally, a GASB Statement, Interpretation, or Technical Bulletin would be more appropriate to address new issues or to amend existing guidance on ...**

**GASB Exposure Draft Implementation Guide No. 20XX-1  
(Chapter 6)**

**A—Statement 31, as amended, applies to regulated entities just as do all other GASB pronouncements. Regulated operations guidance in Statement 62 may be applied to activities of entities that meet the criteria in paragraph 476 of that Statement.**

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**Explore GASB 96 on subscription-based information technology arrangements. Understand its implications for financial reporting and compliance. Learn more today!**

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