

GASB 96

Side-by-Side Financial Statement Impact

Accounting for subscription-based information technology arrangements (SBITAs) for governments has changed under GASB 96. SBITA is defined as a contract that conveys the right to use another party's information technology software for a period of time in an exchange or exchange-like transaction.

The new accounting standard materially affects the financial statements of most government entities, primarily due to the change in the treatment of subscription based agreements. Because it can be easier to understand this significant change with examples, we are offering this side-by-side to show the impact to both the statement of net position and revenue/expense categories.

Transitioning an Agreement

Accounting for subscription based agreements has changed significantly under the new lease standard. Under the previous guidance, users recognized an expense as payments were made. Under GASB 96, SBITAs are booked on the balance sheet with the following entry upon commencement of the term:

- A. Subscription Liability is the present value of future payments, and
- B. Subscription Asset is the value of the Subscription Liability increased by prepayments, initial implementation costs and reduced by incentives received from the vendor.

There are three implementation stages when a government subscribes to new software. Those stages and how to account for them are listed below.

Preliminary Project Stage

Conceptual formulation and evaluation of alternative. Outflows are expensed as incurred.

Initial Implementation Stage

Configuration, coding, testing and installation associated with the government's underlying asset. Capitalized as part of the Subscription Asset.

Operation and Additional Implementation Stage

Maintenance, troubleshooting and other activities associated with ongoing access. Outflows are expensed as incurred.

Important to note that training costs are expensed as incurred.

Transitioning an Agreement - Example 1

The following shows how subscriptions were previously recorded for annual payments and how they will appear under GASB 96. All SBITA examples have the same start date, term, payments and discount rate.

Sample Arrangement: Annual Payments

| | |
|--|---|
| FYE | 6/30 |
| Start Date | 9/01/2023 |
| Term | 3 years |
| Payment Amount | \$45,000 paid at the beginning of each year |
| Present Value of Subscription Payments | \$84,784.16 |
| Discount Rate | 4% |

Arrangement Under Old

| | 6/30/2023 | 6/30/2024 |
|----------------------------------|-----------|-----------|
| Statement of Net Position | | |
| Assets | | |
| Cash | -\$45,000 | -\$45,000 |
| <hr/> | | |
| Liabilities | | |
| {none} | \$0.00 | \$0.00 |
| <hr/> | | |
| Statement of Activities | | |
| Rent Expense | \$45,000 | \$45,000 |
| Interest Expense (none) | 0 | 0 |
| | \$0.00 | \$0.00 |

Arrangement Under GASB 96

| | 6/30/2023 | 6/30/2024 |
|----------------------------------|--------------|--------------|
| Statement of Net Position | | |
| Assets | | |
| Cash | -\$45,000.00 | -\$45,000.00 |
| Subscription Asset | \$129,784.16 | \$129,784.16 |
| Accumulated Amortization | -\$36,051.20 | -\$79,312.64 |
| | \$93,732.96 | \$50,471.52 |
| <hr/> | | |
| Liabilities | | |
| Interest Payable | \$2,868.91 | -\$1,405.82 |
| Subscription Liability - ST | -\$41,545.76 | -\$43,238.40 |
| Subscription Liability - LT | -\$43,238.40 | -\$0.00 |
| | -\$84,784.16 | -\$43,238.40 |
| <hr/> | | |
| Statement of Activities | | |
| Amortization Expense | \$ 36,051.20 | \$43,261.44 |
| Interest Expense | \$2,868.91 | \$2,048.42 |
| | \$38,920.11 | \$45,309.86 |

+ Transitioning subscriptions when implementing GASB 96

During transition, governments are permitted but not required to include capitalizable outlays associated with the initial implementation stage as part of the Subscription Asset. If it's convenient to do so, include the balance as part of the transition Subscription Asset and amortize over the life of the term

Transitioning an Agreement - Example 2

The following shows how subscriptions were previously recorded for monthly payments and how they will appear under GASB 96. All SBITA examples have the same start date, term, payments and discount rate.

Sample Arrangement: Monthly Payments

| | |
|--|---|
| FYE | 6/30 |
| Start Date | 8/01/2023 |
| Term | 5 years |
| Payment Amount | \$1,500 paid at the beginning of each month |
| Present Value of Subscription Payments | \$75,578.28 |
| Discount Rate | 6.5% |

Arrangement Under Old

| | 6/30/2023 | 6/30/2024 |
|----------------------------------|-----------|-----------|
| Statement of Net Position | | |
| Assets | | |
| Cash | -\$16,500 | -\$18,000 |
| <hr/> | | |
| Liabilities | | |
| {none} | \$0.00 | \$0.00 |
| <hr/> | | |
| Statement of Activities | | |
| Rent Expense | \$16,500 | \$18,000 |
| Interest Expense {none} | 0 | 0 |
| | <hr/> | <hr/> |
| | \$0.00 | \$0.00 |

Arrangement Under GASB 96

| | 6/30/2023 | 6/30/2024 |
|----------------------------------|--------------|--------------|
| Statement of Net Position | | |
| Assets | | |
| Cash | -\$16,500.00 | -\$18,000.00 |
| Subscription Asset | \$77,078.28 | \$77,078.28 |
| Accumulated Amortization | -\$14,131.04 | -\$29,546.72 |
| | <hr/> | <hr/> |
| | \$62,947.24 | \$47,531.56 |
| <hr/> | | |
| Liabilities | | |
| Interest Payable | -\$348.85 | -\$271.75 |
| Subscription Liability - ST | -\$14,232.90 | -\$15,186.11 |
| Subscription Liability - LT | -\$50,169.48 | -\$34,983.37 |
| | <hr/> | <hr/> |
| | -\$64,402.38 | -\$50,169.48 |
| <hr/> | | |
| Statement of Activities | | |
| Amortization Expense | \$ 14,131.04 | \$15,415.68 |
| Interest Expense | \$4,172.94 | \$3,690.00 |
| | <hr/> | <hr/> |
| | \$18,303.98 | \$19,105.68 |

+ Make it easier on yourself (and your clients)

Navigating the new SBITA standard can be complex and time-consuming, especially for organizations that have more than a handful of subscriptions. In addition, managing the process manually on spreadsheets becomes quite risky, introducing a significant potential for error as well as complicating the audit process.

LeaseCrunch is an easy-to-use, yet powerful software platform that simplifies the implementation of the lease standards for you and all your clients. The platform handles the initial and ongoing journal entries for you - along with quantitative footnote disclosures, amortization schedules, and more.

[Learn more](#) or [request a demo now](#).