

THE STANDARD STANCE

Built, Bought or Rented: Decoding the Accounting for AI Costs under Ind AS

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EXECUTIVE SUMMARY

Spending on artificial intelligence (AI) is growing fast across sectors. Some companies pay a monthly fee for AI assistants or are charged each time they use a vendor's AI. Others build their own AI tools, and a few buy servers to run AI themselves. For each cost, the finance team has to answer one question: does it go to the balance sheet as an asset, or to the profit and loss account as an expense?

Most AI spending today is on services. The company uses AI that someone else owns and runs, so the cost is an expense. An asset arises only where the company controls what it has paid for, such as servers it has bought, rights it has purchased or a tool it has built. Even then, the cost of a tool built in-house is shown as an asset only from the point the project has been shown to work. This publication covers companies that use AI in their own business, not companies that sell AI products or services to their customers. It explains what companies spend on AI, which accounting standards apply, and how each type of cost is accounted for.

1. AI Costs: What Companies Pay For

AI spending usually falls into a few broad types. Most companies start by renting AI from a technology company. Some buy software, data or hardware outright, and some go further and build their own tools.

Type of cost	Examples
Subscriptions and usage fees	Monthly licences for AI assistants in office software; fees charged each time the company uses a vendor's AI model; prepaid usage credits
Setting up	Consultants; configuring the vendor's tool; connecting AI to the company's own systems, such as its ERP or CRM
Buying outright	Software licences; an AI model bought with its rights; datasets
Building in-house	Salaries of engineers and data scientists; computing power used to develop and test AI; AI coding tools
Data	Buying, cleaning and labelling the data that an AI model learns from
Hardware and computing capacity	AI servers bought outright; server capacity reserved with a cloud provider for the company's sole use
Running and upkeep	Day-to-day usage; monitoring; updating models; training employees to use AI

2. The Accounting Framework For AI Costs

Ind AS is principles-based and technology-neutral, and there is no AI-specific standard or ICAI guidance, so the publication applies the existing standards. Which one applies depends on what the company has paid for.

Standard	What it deals with	Where it applies to AI Costs
Ind AS 38 Intangible Assets	Assets without physical form, such as software, licences and data	Subscriptions, set-up costs, AI built in-house, models and data bought
Ind AS 16 Property, Plant and Equipment	Physical assets used over more than one year	AI servers bought outright
Ind AS 116 Leases	Contracts that give a company control of a specific asset for a period	Dedicated server capacity
Ind AS 36 Impairment of Assets	Assets worth less than the amount at which they are carried	AI projects in progress; models that become outdated
Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets	Contracts expected to make a loss	Minimum spending commitments that will go unused

Interpretive material is also relevant in applying these standards. The IFRS Interpretations Committee's agenda decisions on cloud computing arrangements[1] have not been formally adopted in India, but they explain requirements that are the same under Ind AS 38, and the Institute of Chartered Accountants of India's (ICAI) Educational Material on Ind AS 38 draws on the 2019 decision in concluding that access to a supplier's cloud-hosted software does not give the customer a software asset[2]. The International Accounting Standards Board (IASB) is reviewing the accounting for intangible assets. It is working through two test cases, cloud computing arrangements and agile software development (software built in short, repeated cycles), and its staff have recommended treating AI and data as examples within those cases rather than as separate topics. Until that work is complete, Ind AS 38 continues to apply as it stands, and two of its ideas, set out below, run through this publication.

Control. A company can show an intangible item as an asset only if it controls it, meaning it can obtain the benefits and stop others from doing so. Using AI that runs on a vendor's systems, which the vendor can change or withdraw, is usually not control.

Research versus development. For anything built in-house, early work to explore and test ideas is research, and research is always an expense. Costs can be shown as an asset only from the point the company can demonstrate all of the following:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- its intention to complete the asset and use or sell it, and its ability to do so;
- how the asset will generate probable future economic benefits, for example through a market for its output or, for an asset used internally, its usefulness;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- its ability to measure reliably the expenditure attributable to the asset during its development.

These conditions are referred to in this publication as the development criteria. Costs incurred before they are met are expensed and cannot be capitalised later, even if the project goes on to succeed. The sections that follow apply these principles to the three ways a company typically gets AI: by renting it, buying it or building it.

3. Rented AI: Subscriptions, Usage Fees And Cloud Capacity

For most companies, AI is rented rather than owned. They pay for AI assistants built into office software, pay a cloud provider each time they use its AI model (which is the trained system that produces answers or predictions), or buy industry software with AI built in. The vendor runs the AI on its own systems and decides when to update or withdraw it. The common arrangements, and how each is accounted for, are explained below:

Subscriptions and usage fees - Because the company only has access to AI that the vendor controls, it is buying a service, not an asset. The cost is expensed as the service is received. Amounts paid in advance, such as an annual licence fee or prepaid credits, are prepayments and are expensed over the period they cover or, for prepaid credits, as they are consumed. A subscription to a data feed is treated the same way.

Minimum spending commitments - Some contracts commit the company to a minimum spend. Usage is still expensed as it happens. If the company expects to use less than the minimum but will still have to pay for it, it recognises a provision under Ind AS 37 for the unused amount.

Setting up rented AI - Consultancy fees, configuration of the vendor's tool and similar set-up work usually create no asset, because the company does not control the software being set up. If a third party does the work, the cost is expensed as the work is done. If the vendor does the set-up as part of the subscription and such set-up has no use without the subscription, any upfront fee is a prepayment, expensed over the subscription period. Some costs are expensed whichever way the project is labelled: AI strategy and identifying where to use AI, prompts and workflows set up within the vendor's tool, cleaning existing data, change management and training employees.

Fine-tuning on the vendor's platform - A company can fine-tune (further train) a vendor's model on its own data and get a version that only it can use. Being the only user does not, by itself, mean the company controls the model. If the model runs only on the vendor's systems, depends on a base model the vendor can change, and cannot be taken elsewhere, the company is still buying a service. If the company can take a copy of the trained model and run it wherever it chooses, it may control an intangible asset.

Renting computing capacity - Computing power drawn from a provider's shared pool, where the provider decides which servers are used, is a service and is expensed. A contract for dedicated servers needs closer analysis, because it may contain a lease. It contains a lease if all of the following apply for the whole contract period:

- the servers are specific; for example, a separate cluster named in the contract (a portion of a shared cluster does not count unless it is almost all of the cluster);
- the company gets almost all the benefit from using them; and
- the company decides how they are used, such as which workloads run and when, even if the provider operates and maintains them.

[1] IFRS Interpretations Committee agenda decisions on IAS 38: software hosted on the cloud (March 2019); configuration or customisation costs (April 2021).
[2] ICAI, Educational Material on Ind AS 38, Intangible Assets (July 2020), FAQ 12.

There is no lease if the provider can replace the servers with others at any time and would benefit from doing so. A right to replace a server only when it breaks down does not change this. Where there is a lease, the company shows its right to use the servers as an asset and the payments due as a liability, and the cost appears as depreciation and interest rather than as rent. Payments that are variable and depend on usage are not part of the lease liability and are expensed as incurred. These contracts often include services such as support or networking, which are accounted for separately unless the company chooses to treat them as part of the lease. Whether a contract contains a lease, and how it is split, depends on its terms.

4. Bought AI: Licences, Models, Data And Servers

Some companies buy AI outright instead of renting it. This can mean buying software or a trained model along with the rights to use it as they choose, buying datasets, or buying the servers that run AI. Unlike a subscription, what is bought stays with the company.

Software, models and data - Where a company buys rights that it then controls, such as a perpetual software licence, an AI model with its intellectual property or a dataset it can use as it chooses, it has an intangible asset, recorded at cost and amortised over its useful life. A subscription to the same item, which ends when payments stop, remains a service as explained in section 3 above.

AI servers - GPU servers (computers with specialised chips used to train and run AI) bought outright are property, plant and equipment under Ind AS 16. Schedule II to the Companies Act, 2013 gives servers a useful life of six years. Ind AS 16, however, bases the life on how long the company actually expects to use the asset, and AI chips can become outdated quickly. Companies should make their own estimate, review it every year, and disclose the reason where it differs from Schedule II. Where GPU cards form a significant part of the cost and will be replaced sooner than the rest of the server, they may need to be depreciated as a separate component.

5. Built In-house: Development Costs, Training And Data

Some companies go a step further and build their own AI. This ranges from writing software around a vendor's model to developing their own models as explained below.

Moving from research to development - Whether a company is writing software around a vendor's model or developing a model of its own, the key accounting question is the same: from what date can the costs be capitalised? The answer is the date on which the company can demonstrate that the development criteria as explained in section 2 have been met. Everything spent before that, while the company is still exploring and testing ideas, is research and is expensed. In AI projects, it is often difficult to identify this date. A model is built, trained and tested over and over, and whether it will work is often unknown until it has been trained and tested. IASB staff have noted that, for this reason, companies usually expense AI development costs[3].

How much evidence is needed depends on how uncertain the project is. A customer-service chatbot of a kind already in wide use carries little uncertainty. An AI agent that runs a complete business process, not yet proven elsewhere, carries a lot. Where the outcome is genuinely uncertain, the evidence would generally include:

- a pilot that met targets set in advance;
- testing on data the model was not trained on;
- a design that is broadly settled; and
- an approved and funded plan to complete and use the model.

Where the tool is built from proven parts, such as a search tool over an established model, the criteria may be met earlier, once the design is validated. Either way, the evidence must exist at the time. A company cannot go back and capitalise earlier costs once a pilot succeeds.

What goes into the cost - Once the development criteria are met, the asset includes the costs directly linked to building it from that date:

- salaries of the engineers building it, including the cost of their share-based payments, based on time spent;
- computing power used to train and test it;
- data bought or labelled for it;
- licences used to develop it, including AI coding tools; and
- interest on borrowings used to fund it, where Ind AS 23 Borrowing Costs allows.

However, general overheads, wasted effort and staff training are not included.

AI coding tools - What matters is how the tool is used, not how it is billed. Usage that can be traced to the project, for example through project-level usage logs, may be included. A company-wide subscription available to all staff is an overhead and is expensed. Spreading such costs across projects by headcount does not meet the test.

[3] IASB Agenda Paper 17D (January 2026).

Training a model is not training staff - Ind AS 38 requires spending on training to be expensed, but that rule is about training employees: a company does not control the skills its people gain. Training an AI model during development is different, because the trained model is something the company controls. One possible view, therefore, is that computing power and data used to train a model during development can form part of its cost. The question has been raised with the IASB, and its staff have suggested dealing with it as part of the IASB's wider review; no decisions have yet been taken[4]. This remains an area of judgement and until it is clarified, companies taking this view should document their basis for treating model training as part of developing an intangible asset and disclose it where material.

Not every training run qualifies. Runs within the approved development plan, including tuning and testing, may form part of cost. Runs on approaches that are later dropped are written off, and runs lost to errors or repeated beyond the plan are wasted effort and are expensed. Records that separate these make the split easy to audit.

Data the company already holds - Data collected in the normal course of business, such as customer records, is generally not an asset. Its cost usually cannot be separated from the cost of running the business, and items similar to customer lists cannot be shown as assets at all. Preparing and labelling data specifically for a model under development, however, may form part of that model's cost.

The principles above apply to any AI project built in-house. Two common arrangements need a closer look: software built on top of a vendor's model, and AI built for the company by an outside firm.

Building on top of a vendor's model - A company may write its own software that connects a vendor's model to its documents and systems, checks what goes in and comes out, and runs in the company's own cloud account. This software can belong to the company, particularly where it could be switched to a different vendor's model. It is assessed like any other in-house development, against the development criteria. Services bought from third parties along the way, such as a hosted database, remain services and are expensed. If the software works only with one vendor's model, it may stop being useful if the vendor changes or withdraws that model. The company should reflect this when estimating how long the software will be used, which may mean a shorter useful life.

Outsourced builds - Using an IT services firm does not change the analysis by itself. If the company bears the risk that the tool does not work, it is the company's own development project. The firm's charges are then treated like any other cost of the project, expensed while the project is in research, and capitalised once the development criteria are met. If instead the supplier takes the risk and hands over a finished model with its intellectual property, the company is buying an asset (section 4).

6. After Go-live: Retraining, Useful Life And Impairment

Spending on an AI tool does not stop once it is in use. Most spending after go-live keeps a tool working as before and is expensed. Retraining a model whose performance has dropped over time, or moving to a vendor's newer model so that the tool keeps working as before, falls into this category. Work that adds a significant new capability is treated as a new development project and is capitalised only if it meets the development criteria on its own.

Useful lives of AI assets are often short. In setting them, companies consider how dependent the tool is on a third-party model or platform, how easily it could move to another model, and the term of any contract, including renewals the company expects to obtain. The useful life is reviewed at least every year.

AI assets still under development are tested for impairment at least once a year. After go-live, warning signs include a clearly better or cheaper model coming to market, a sustained fall in performance, a change in regulation or consent affecting the data, and a decision to pause or abandon the project. An abandoned project is written off.

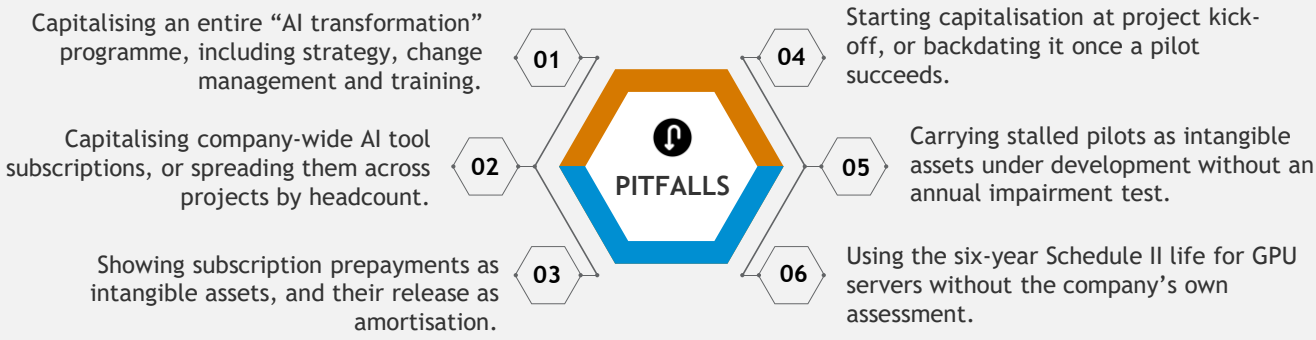
DISCLOSURES

Where AI spending is material, companies may need to disclose:

- their accounting policy for AI costs, including when development is considered to begin, as a significant judgement;
- the useful lives of AI assets and hardware, and the uncertainty in those estimates where significant;
- research and development costs expensed in the year;
- the ageing and completion schedule of intangible assets under development; and
- lease disclosures for computing contracts.

[4] IASB Agenda Paper 17D (January 2026) and Agenda Paper 17 (October 2026).

COMMON PITFALLS



SUMMARY: AN INDICATIVE DECISION FLOW

The chart below summarises how AI costs are generally treated. Each case should be assessed on its own contract terms and facts.

An indicative route for AI costs: the contract terms and facts decide

01 Is it hardware the company has bought?	Yes	**Property, plant and equipment** Depreciated over the period the company expects to use it
▼ No		
02 Has the company reserved specific servers, and does it decide what runs on them and when?	Yes	**Possibly a lease** Check the contract: specific servers, all the benefit to the company, and the company decides how they are used
▼ No		
03 Is the company only using AI, computing power or data that the vendor controls?	Yes	**A service** Expensed as used; advance payments are prepayments. Usually includes models fine-tuned on the vendor's platform
▼ No		
04 Has the company bought rights it now controls, such as a licence, a trained model or a dataset?	Yes	**Bought intangible asset** Recorded at cost
▼ No		
05 Is the company building it, but the project is still at research stage or not yet shown to work?	Yes	**Expensed** Not added back later, even if the project succeeds
▼ No		
06 Is it an overhead, wasted effort or staff training?	Yes	**Generally expensed** Includes training runs lost to errors or repeated beyond the plan
▼ No		
Costs directly linked to building the asset may be capitalised Amortised once in use; until then, tested for impairment at least once a year	Then	**After go-live** Upkeep: generally expensed New capability: assessed as a new project

☐ Asset may be recognised ☐ Generally expensed

CLOSING PERSPECTIVE

Ind AS does not need rewriting for AI, but it does need careful application. The technology and the contracts are changing quickly, and no single answer fits every arrangement. The starting point is control. Where a company only has access to a vendor's AI or computing power, the cost is generally an expense. Where it controls what it has paid for, such as servers it owns, dedicated servers whose use it directs, rights it has bought or a tool it has built, an asset may arise. For anything built in-house, costs are capitalised only once the project has been shown to work, and only the costs directly linked to building it are included. After go-live, upkeep is expensed, and useful lives should reflect how quickly the technology changes.

Making these assessments when the cost is incurred, and recording the judgement at the time, gives the accounting the best chance of standing up to audit and regulatory review.

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