The New Software Accounting Rules-GASB 51

Definitions

- **Software Package:** Software purchased or licensed with the software code already written and developed . The useful life must be over 1 year.

- **Internal Use Computer Software** - Internal use computer software has both of the following characteristics; **the software is acquired, internally developed, or modified solely to meet the entity's internal needs,** and during the software's development or modification, **no substantive plan exists or is being developed to market** the software externally.

- **Upgrades and enhancements** – Includes modifications to existing internal use software that result in additional functionality – **modifications to enable the software to perform tasks that it was previously incapable of performing.**

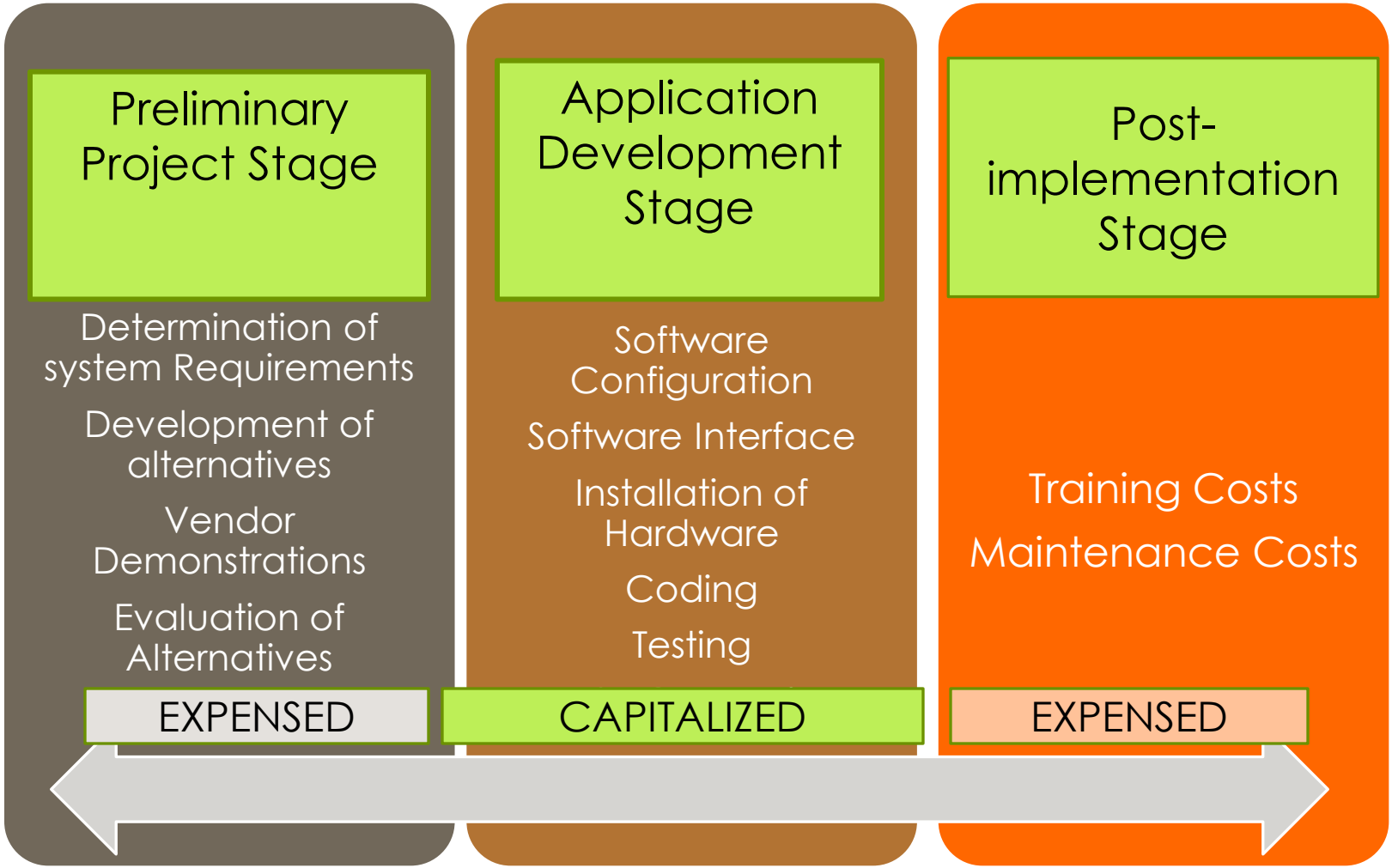
Definitions

- **Estimated Useful Life** – The period over which the internal use computer software will be amortized. **Given the history of rapid changes in technology, software often has had a relatively short useful life.** The State shows a suggested estimated life for software at 5 years.

- **Impairment**- In assessing estimated useful life, entities should consider the effects of obsolescence, technology, competition, and other economic factors. If any of these affect the value or useful life of the asset, an asset is considered impaired and should be adjusted in the general ledger.

- **Capitalization thresholds**:
  Packaged Software > $5000
  Internal Development Software > $50,000

Timing of Capitalization



Capitalization Occurs When:

1. Preliminary Project Stage is complete.
2. Management authorizes and commits funds
3. It is probable the project will be completed
4. The software will be used to perform the function intended
5. Capitalization ceases when the software project is substantially complete after all testing is completed.

Costs Expensed

- Internal and external costs **incurred during the preliminary project stage**
- **Training** during all project stages
- Data conversion costs are normally considered part of the post implementation/operations stage and should be **expensed unless** they are determined to be **necessary to make the computer software operational.**

Costs Expensed

- Internal costs incurred for maintenance or that **cannot be reasonably separated** between **maintenance** and minor **upgrades.**
- **General**, **administrative** and **overhead** costs
- **Maintenance** costs in post implementation/operation stage

Costs Capitalized

- **Internal and external costs** incurred to develop internal use computer software during the **application development stage.**

- **External direct costs of materials and services** consumed in developing or obtaining internal use software. Examples include fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.

Costs Capitalized

- **Payroll and payroll-related costs** such as benefits for employees who are **directly associated** with and who devote time to the internal use computer software project, to the extent of the time spent directly on the project. Examples include coding and testing during the application development stage.

- **Interest costs** incurred while developing internal use computer software (proprietary fund accounting only – governmental type activities should not capitalize related interest costs).

Purchase Price

- Where the price of internal use computer software from a third party includes multiple elements such as training, maintenance fees, and data conversion, the entity should allocate the costs among all individual elements.

- Multi-element arrangements: The allocation should be based on objective evidence of fair value of the elements in the contract, not necessarily separate prices stated within the contract for each element.

Upgrades and Enhancements

Modifications to the software to perform tasks that it was not previously capable of performing.

If material in relation to project costs, then it should be capitalized as per criteria above.

Modules of a base system that are implemented later will be considered a separate asset if it meets the capitalization rules.

Impairment

- New software should trigger consideration of remaining useful lives of software to be replaced.
- If development of the software is discontinued the project is impaired and the cost to date should be expensed.
- When replacing software: unamortized costs should be expensed when the new software is ready for use.

Capital or Non-Capital?

- Software Quote shows 10 licenses purchased – each is $500. Total PO is $5000.

- Software Quote shows a package worth $8000. This includes software support.

  -Support is $1000

  -Support is $4000

- Purchase order shows a consultant has been hired to help with implementation of a software program $500,000.

89 Account

Captures costs as equipment or software is developed through to completion of the project.

Types of costs to expense on an 89 account include materials, supplies and salaries consumed **directly** in developing the product.

With Automatic Journal Entries (PRJE's), the expenses in a 89 roll monthly to the funding account.

89 Accounts

89 : 1100	
1. $500	
2. $1000	

89 : 5XXX-7XXX	
1. $500	
2. $1000	
	3. $1500

89 : 4800	
	3. $1500

13 : 1100	
	3. $1500

13: 6224	
3. $1500	

1. Expense to Project $500
2. Another expense to the project $1000
3. Monthly Automatic Journal Entry (PRJE)

Finished Project Entry

13 : 6224	
	4. $1500

13: 8260	
4. $1500	

4. Move Total Project Expenses to Capital Software Object Code

QUESTIONS?????