

University of Missouri System

Accounting Policies and Procedures



Policy Number: APM-20.05.60

Policy Name: Capital Assets – Software Development and Purchase

General Policy and Procedure Overview:

Consistent with the Governmental Accounting Standards Board Statement 51, new software projects with direct costs greater than or equal to \$100,000 should be capitalized. Direct costs include the cost of the software or fair market value of the software if acquired by gift, and any projected direct costs such as consulting expense needed to install, configure, code and test the software. The software implementation project must be broken down into three stages, the preliminary project stage, the application development stage, and the post-implementation/operation stage. In addition to the cost of the software, only expenses incurred during the application development stage should be capitalized.

This policy provides guidance as to the application of this GASB Statement at the University of Missouri.

Detail Policy and Procedure:

Capital costs:

Outlays incurred prior to the application development stage should be expensed as incurred. Capitalization begins in the application development stage. The application development stage begins once; 1) preliminary project stage has been completed 2) Management with the relevant authority, explicitly or implicitly, authorizes and commits to funding a computer software project and believes it is probable the project will be completed and the software will be used to perform the intended function. At this point, the costs incurred to develop or obtain computer software for internal use should be capitalized and accounted for as a capital asset. Capitalization ceases no later than the point at which the software is substantially complete including all necessary testing and ready for use.

Both internal and external costs incurred to install, configure, code, and test software are capitalized. The cost of testing, as well as installing, the software are should be capitalized. The costs included in the value of the capital asset, once the capitalization period has begun, would be the following:

- External direct costs (i.e., from third-party transactions) of materials and services consumed in developing or obtaining internal use computer software,
- Payroll and benefits costs for employees who devote a substantial amount of time during the application development stage. Substantial time on a project is the lesser of 500 hours or an amount set by the individual business unit.

- The costs of developing bridging software should be capitalized, but only if the software can only be used for this specific data conversion effort (i.e., there is no alternative future use to the bridging software).
- Developed or obtained software that allows for access of old data by new systems.

Non-Capital Expenses to be Expensed as incurred:

- Preliminary project stage, the costs associated with the selection of specific software.
- General and administrative costs, as well as overhead, are not capitalized for internal-use software.

Maintenance and Enhancements:

As discussed in GASB 51 Question Z.51.23, software upgrades should generally not be capitalized and should be considered maintenance, and accordingly expensed as incurred. Only upgrades or enhancements that can be demonstrated to have substantial additional functionality beyond the original software would be capitalized.

Training

- Training regarding the design or the functionality of the software should be capitalized if determined to be material to the project
- The costs of training users on the use of the software should be expensed.

Useful Life:

Policy [APM 20.15](#) contains the University's policy regarding depreciation. The Appendix to policy [APM 20.16](#) details the useful life assigned to various assets including computer software.

RESPONSIBILITY

Controller & Campus Accounting Offices:

- Determine if the expenditures meet the requirements for capitalization.
- Work with departments to estimate dedicated staff hours.
- Capitalize software for their respective business unit.

Effective Date: July 1, 2006

Revised Date: May 11, 2011

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.