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**Subject:** Software Capitalization Policy  
**Date:** Thursday, June 17, 2010 4:15:33 PM  
**Attachments:** [software capitalization memo.pdf](#)

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The following policy is added to General Policy 28 – Capital Outlay and if effective for fiscal year 2010. Please review software purchased or internally developed during fiscal year 2010 to determine if additional purchases need to be added to fixed assets before June 30, 2010.

Software:

**Application software** – computer software that is internally developed or substantively modified, shall be capitalized as a separate asset if the acquisition value is One Hundred Thousand Dollars (\$100,000) or more and has a life greater than one year. During the application development stage (as defined below) of software development the costs should be accumulated in object account 587500 – Projects in Progress. Once the project is complete the costs are moved to 583300 – Computer Equip & Software. Note: Operating software, such as Microsoft Windows that is purchased with a computer package will be capitalized as part of the initial cost of the computer.

**Application Software Costs to Capitalize:**

- Application software acquisition and or development costs
- Costs directly related to software development, includes:
  - Material costs
  - Developer salary & benefit costs
  - Outside Consultant costs (including time and related expenses)
  - Project Team testing
  - Data conversion software
  - Manager salary & benefit costs for project oversight if **directly** related to software development.

**Application Software Costs not to Capitalize:**

- Discovery Costs -- those costs incurred before the project scope is broadly defined and before management approval
  - Costs to develop and offer end user training of new or upgraded software
  - Costs to implement, after development is complete
- All other testing – not done by the project team
  - Staff training
- Costs incurred after implementation has begun (defined as the point at which the software is in use, in a production environment, by the users for whom the software was designed). For example, maintenance agreements may not be capitalized.

**Phases of an Application Software Project**

Phases: **General** treatment of costs:

- Preliminary Project Stage - Expensed
- Application Development Stage - Capitalized
- Post Implementation/Operation Stage - Expensed

**"Preliminary Project Stage"** means the earliest stage of a software development or selection project, during which the alternatives are being evaluated but no decision has been made as to which strategy or vendor to use. Typical activities during this phase include assembling the evaluation team, evaluating proposals from vendors and the final selection of alternatives.

**"Application Development Stage"** means the stage of a software development or selection project during which the design, coding, installation and testing of new software occurs. The stage begins once management has authorized and committed to funding the project, and it is considered probable that the project will be completed and put to its intended use. The application development stage concludes when the software is complete and ready for use.

**"Post-Implementation/Operation Stage"** means the stage that begins once the software is put into use. It includes training and subsequent maintenance of the software.