

Tangible Capital Assets

Guideline I: Customized Software

Overview

Clarification has been requested on what types of costs may be capitalized as part of the development of customized software.

The following guideline is intended to supplement the Tangible Capital Assets (TCA) Policy and provide further guidance on its application. It should be noted that this guideline is not all-inclusive and professional judgement must be exercised in applying it to each circumstance.

Definitions

The TCA policy notes the following definitions:

COST

Cost is the amount of consideration given up to acquire, construct, develop or better a tangible capital asset and includes all costs directly attributable to acquisition, construction, development or betterment of capital assets including installing it at the location and in the condition necessary for its intended use.

CUSTOMIZED SOFTWARE

Customized software includes customized software systems that were developed “in house” or with the assistance of private sector partners. Customized software systems are usually designed for a unique specific purpose.

Costs incurred to design, develop and implement a computer system include direct costs. Direct costs include external costs (i.e., hiring an external consultant) and internal government costs (i.e., salary and ancillary costs related to the development of a system).

Other definitions that may be applicable are as follows:

SOFTWARE

Software generally includes the application and operating systems programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program.

Computer software that is integrated into and necessary to operate general property, plant and equipment, rather than perform an application, should be considered part of the property, plant and equipment of which it is an integral part and capitalized and depreciated accordingly (e.g., computer operated lathe).

Guideline Directives

A software's life-cycle phases include planning, development and operations. Some of the items that may be covered in the three phases are as follows:

PLANNING (CHARGED TO EXPENSE AS INCURRED)

- conceptual formulation of alternatives - e.g., should we develop new software or correct problems in existing software
- evaluation and testing of alternatives - vendor demonstrations, proposals, consideration to develop in-house
- final selection of alternatives

DEVELOPMENT (TO BE CAPITALIZED)

- design of chosen path, including software configuration and software interfaces
- coding
- installation to hardware
- testing, including data conversion and parallel processing phase

OPERATIONS (CHARGED TO EXPENSE AS INCURRED)

- application maintenance
- initial and ongoing end-user training

Inclusions

Only those costs associated with the development stage should be capitalized. These costs may include:

- salary costs incurred during the construction or development period which are directly attributable to the project such as programmers, system analysts and project managers (refer to Guideline 4, Capitalizing Salaries – Internal Staff)
- outside consultants' fees and related travel expenses
- preparation of initial system documentation manuals
- initial direct software licensing fees
- software acquisition
- data conversion
- project team training directly related to the technical needs of the project (e.g., software configuration training)

Exclusions

The following costs would be specifically excluded from capitalization:

- salaries of staff whose contribution to a project is considered ancillary in nature (refer to Guideline 4, Capitalizing Salaries – Internal Staff)
- indirect/overhead costs such as rent, building maintenance costs, equipment usage and utilities
- general administrative costs such as supplies, meeting expenses, advertising, communications and legal services
- end-user training costs including salary and related travel for instructors and trainees, training facilities and training guides
- project team training costs which are not directly related to the technical needs of the project
- organizational change management (OCM) costs (e.g., business process reengineering activities)
- ongoing routine defect correction and maintenance
- troubleshooting once system is in production

Phased-In Approach

Refer to Guideline 5, Assets Under Construction – Phased-In Approach, for further guidance relating to projects using a phased-in approach.

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