

Software Costs - Capitalize vs. Expense Form

Instructions: For all software project costs exceeding \$1 million, this form needs to be filled out and submitted, along with the project charter, signed agreement and supporting documentation to **Business Affairs Finance and Facilities** for SGG⁶ projects and **Capital Accounting** for non-SGG projects.

Questions? Contact Capital Accounting

Project Name:

Estimated Implementation Date: Total Project Cost: \$

STEP 1 - answer the following questions

	YES / NO	YES	NO
a) Estimated total project costs exceed the capitalization threshold of \$1 million?	<input type="radio"/> / <input type="radio"/>	Go to (b)	Expense
b) Is the software acquired, modified or developed solely to meet the organization's internal needs ¹ ?	<input type="radio"/> / <input type="radio"/>	Go to (c)	Consult Controller's Office
c) Is this a hosting arrangement ² ?	<input type="radio"/> / <input type="radio"/>	Go to (d)	Go to STEP 2
d) Does Stanford have the right to take possession of the software during the hosting period without significant penalty ² ?	<input type="radio"/> / <input type="radio"/>	Go to (e)	Expense
e) Is it feasible for Stanford to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software?	<input type="radio"/> / <input type="radio"/>	Go to STEP 2	Expense

STEP 2 - capitalize or expense

Preliminary Project Stage	
CAPITALIZED	EXPENSED
\$ <input style="width: 50px; text-align: center; font-size: 1.2em;" type="text" value="0"/>	\$ <input style="width: 50px;" type="text"/>
<p>No costs shall be capitalized at the preliminary project stage</p>	<p>Examples of costs at the preliminary stage are:</p> <ul style="list-style-type: none"> > Conceptual formulation of alternatives > Evaluation of alternatives > Determination of existence of needed technology > Final selection of alternatives (i.e. before the final selection of software is complete)

Software Development and Post Implementation / Operation Stages

CAPITALIZED	EXPENSED
\$ <input style="width: 50px;" type="text"/>	\$ <input style="width: 50px;" type="text"/>
<p>Examples of capitalized³ costs are:</p> <ul style="list-style-type: none"> > Design of selected software, including software configuration and interfaces > Coding and testing, including parallel processing phase > Cost to develop or obtain data conversion software > Software upgrades and enhancements⁴ to add functionality <ul style="list-style-type: none"> - Only where these result in new or added functionality - Typically require new software specifications or modification of existing software specifications > Payroll and payroll-related costs for employees who are directly associated with and who devote time to the capitalizable software project. The capitalizable costs should be limited to the extent of the time spent directly on the project. > Travel expenses incurred by consultants or employees in their duties directly associated with developing the capitalizable software > External interest expense associated with the capitalizable software 	<p>Examples of expensed costs are:</p> <ul style="list-style-type: none"> > Data conversion costs <ul style="list-style-type: none"> - Purging or cleansing of existing data - Reconciliation or balance of old data - Creation of new / additional data - Conversion of existing data to new system - Data maintenance > Business process re-engineering costs <ul style="list-style-type: none"> - Documenting and re-engineering the business process to increase efficiency and effectiveness - Restructuring work force that will operate the re-engineered business process > Software upgrades and enhancements⁴ that did not result in new or added functionality > General and administrative costs⁵ > Training > Maintenance fees > All costs that don't meet the criteria to be capitalized
CAPITALIZED TOTAL: \$ <input style="width: 50px;" type="text"/>	EXPENSED TOTAL: \$ <input style="width: 50px;" type="text"/>

For Departmental Use

Preparer's Signature: Date:

Preparer's Printed Name:

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Glossary

- 1** Software is considered acquired, modified or developed solely to meet the organization's internal needs unless one of the following scenarios occurs:
 - 1) During the software's development or modification, a substantive plan exists or is being developed to market the software externally
 - 2) Software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process
 - 3) Software to be used in research and development
 - 4) Software developed for others under a contractual arrangement
 - 5) Accounting for costs of re-engineering activities, which are often associated with new or upgraded software applications

- 2** **Hosting arrangement** is defined as follows:

In connection with the licensing of software products, an arrangement in which an end user of the software does not take possession of the software; rather, the software application resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis over the Internet or via a dedicated line. Some hosting arrangement examples are software as a service (SaaS), platform as a service (PaaS) and infrastructure as a service (IaaS).

"Without significant penalty" contains two distinct concepts: (i) The ability to take delivery of the software without incurring significant cost and (ii) The ability to use the software separately without a significant diminution in utility or value.

- 3** **Capitalization**
 - a) **Timing:**

Begin capitalization when:

 - 1) Completed Preliminary Project Stage
 - 2) Funding has been approved
 - 3) Probable that: Project will be completed AND software functionality conforms to intent

End Capitalization when: Project substantially completed AND ready for internal use (Usually is the Go-Live date)
 - b) **Multiple elements:**

The purchase price of the software may include multiple elements, such as training for the software, maintenance fees for routine maintenance work to be performed by the third party, data conversion costs, re-engineering costs, and rights to future upgrades and enhancements. In such case, the department who enters into this arrangement shall allocate the cost among all individual elements. The allocation shall 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.
 - c) **Potential impairment in the value of capitalized cost:**

The capitalized software may have a potential impairment in value that warrants it being written down/off if any of the following occur:

 - 1) The acquired or developed software is not expected to provide substantive service potential
 - 2) A significant change occurs in the extent or manner in which the software was intended to be used
 - 3) A significant change is made or will be made to the software program
 - 4) The costs of developing or modifying the software significantly exceeded the original expected amount

- 4** **Upgrades and enhancements** are defined as modifications to existing internal-use software that result in additional functionality - that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications.

- 5** **General and administrative costs** include the following examples: space/rent, utilities, telephone, overhead costs, supplies and equipment.

- 6** For SGG projects, even if the software selection process is not complete, this Form should be filled out and submitted with the project charter to Business Affairs Finance and Facilities. Once the software has been selected, then this Form should be updated and submitted, along with the signed agreement and supporting documentation, as an addendum to the project charter.