Date: September 25, 1997

To: Wendy Comes
Executive Director
Federal Accounting Standards Advisory Board

From: Judy Yuran
Chairperson
SGL Issue Resolution Committee

Subject: SGL Issue Resolution Committee Comments on Accounting For Internal Use Software ED

The following are comments from IRC members related to the FASAB Accounting for Internal Use Software Standards Exposure Draft. We appreciate the opportunity to comment on this exposure draft. Please call me on (202) 874-6308, if you have any questions.

GENERAL COMMENTS

Applicability of Separate Federal Standards

As noted in paragraph 13, the private sector is in the process of issuing GAAP guidance on internal use software (AICPA's Accounting Standards Executive Committee 12/96 exposure draft, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use").

While the Federal Government is not subject to the AICPA standards, FASAB has provided no justification for separate Federal standards in this area. It will not enhance the credibility of Federal financial reporting if different standards are promulgated for Federal entities in areas where the activities and issues are identical to those of the private sector.

There is nothing unique to Federal entities in the area of software for internal use in regular operations. FASAB guidance should be consistent with and reflect changes to the AICPA standard currently in exposure draft. The final standard adopted by FASAB should closely reflect the standard adopted by the AICPA.

Multi-use Software

The issue of Federal Stewardship software, such as software related to weapons systems, was addressed in the PP&E and Stewardship standards. (See Standard 6, Para 143.) However the Exposure Draft does not adequately address the issue of "multi-use" (also known as "re-use") software originally developed for defense related activities but with subsequent non-defense applications. An example of this which has occurred in the past is GPS (Global Positioning System), which was originally developed for national defense, but subsequently had many non-defense applications. FASAB should address "multi-use" software which applies to both mission and general operations, and establish criteria for capitalization for two basic scenarios: when multi-use is foreseen and/or planned, and when multi-use was unplanned, and the software was previously expensed as mission-related.

ANSWERS TO SPECIFIC QUESTIONS FOR RESPONDENTS

a.(1) Should the costs of computer software developed or obtained for internal use be recognized as assets?

Yes. The IRC believes that the costs of computer software purchased off-the-shelf from a vendor or internally-developed by a vendor or agency staff should be recognized as an asset.

(2) If so, should all internal use software costs be capitalized or only those for which user charges are anticipated?

Following the "full cost concept" all internal use software costs should be capitalized when the dollar threshold for capitalization at the individual agency is met.

b. Should the capitalization begin, as indicated in paragraph 21, after:

(1) Management authorizes and commits to funding a computer software project and believes it more likely than not that the project will be completed and the software will be used to perform the intended function, with an estimated service life of 2 years or more

and

Completion of conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage).

Yes. Capitalization should begin after management's authorization, commitment and with an estimated service life of two years or more and completion of the preliminary design stage. However, capitalization should be consistent with the private sector and the final AICPA standard, currently exposure draft "Accounting for the Costs of

Computer Software Developed or Obtained for Internal Use". In addition, Paragraph 21, of the standard is confusing. Direct costs described in the paragraph seem to apply primarily to internally developed not to both purchased software and internally developed as stated in the previous paragraph 20.

or

(2) Should the standard require that "technological feasibility" or other thresholds be established before capitalization (see paragraph 11 and other background paragraphs)?

No. See IRC answer to b.(1) above and Para 22, 28 and 29 of the AICPA Exposure Draft.

c.(1) Does the standard provide sufficient guidance for determining what costs must be capitalized (see discussion in paragraphs 21-22)?

Yes. The standard provides for sufficient general guidance for determining what costs must be capitalized. However, the guidance should be consistent and agree with the final AICPA standard to include paragraph 26 (ex: interest capitalized) currently in exposure draft.

(2) Should indirect costs be capitalized?

No. Should be expensed as stated in paragraph 22 and consistent with AICPA Exposure Draft paragraph 26.

(3) a. Should cost of training be capitalized?

No. Training costs are similar to indirect costs.

d.(1) This standard does not set a maximum period for amortization. (See paragraph 31). Should the standard specify a maximum period?

No. Determination of amortization period should be the useful life as determined by the Agency. FASAB is consistent with the AICPA exposure draft paragraphs 30, 31 and 32.

(3) Does the standard provide sufficient amortization guidance?

Yes. The standard provides sufficient amortization guidance.

e.(1) Should impairment of internal use software be recognized and measured in accordance with paragraphs 27-29?

Subcommittee
Yes. Impairment of internal use software should be recognized and measured. This would be consistent with the AICPA 12/96 Exposure Draft paragraphs 28-29. The final standard adopted by FASAB should be consistent with the standard adopted by the AICPA.

(2) If so, does this proposed standard provide sufficient guidance for entities to recognize and measure impairment?

Yes. This standard provides sufficient guidance.

f. Does the implementation date (for periods beginning after September 30, 1998) afford sufficient time to make the necessary changes in the entity's accounting system to track and aggregate internal use of software costs?

No. In order to afford sufficient time to make the necessary changes to the entity's accounting system to track and aggregate internal use of software costs, the implementation date should be after September 30, 1999 (FY2000).

g. Can your existing or planned systems track or will be capable of tracking and accumulating software costs, especially internally-developed software costs?

Responses should be provided to FASAB by individual agencies.