



## Solution 122.1

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| <b>Component</b>   | Telecommunication entities                        |
| <b>Index</b>       | Intangible assets – internally developed software |
| <b>Short title</b> | Software development costs                        |

**Attention:** This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

### Issue

An intangible asset is recognised if probable future economic benefits from the asset will flow to the entity and the cost of the asset can be measured reliably [IAS38R.21].

The probability of future economic benefits is assessed using management’s assumptions of the economic conditions that will exist over the asset’s useful life [IAS38R.22].

When should an operator capitalise internally-developed software?

### Background

Operator A is considering upgrading its billing system. A completed a feasibility study that considered several software systems before deciding whether to go ahead with the upgrade. A subsequently decided to upgrade its billing system.

The development will take six months to complete. A will use internal resources to customise the software. The total cost is expected to be 250,000, including 10,000 for the feasibility study, 25,000 to train the personnel who will be using the billing system and 215,000 of labour time for those personnel who were dedicated to the customisation and upgrade of the billing system.

### Solution

Operator A should expense the costs of 10,000 associated with the feasibility study and the training costs of 25,000 as incurred. The direct personnel costs of 215,000 should be capitalised as part of the cost of the new billing system.

A must capitalise the cost of customising the software as part of the cost of the software, provided:

- (a) it has the resources to complete the project;
- (b) the software will be used in operating the business; and
- (c) it is probable the system will generate future economic benefits



The costs that may be capitalised are those directly attributable to the project, including the salaries of personnel directly engaged on the project. Costs that are not necessary for the development of the software, such as the feasibility study, are expensed as incurred. Training costs are never capitalised, because employees do not represent a resource controlled by the organisation.