Capitalisation of IT Project Expenditure as internally generated Intangible Assets

UNSW Accounting Procedure	
Linked UNSW Policy	Property, Plant and Equipment & Intangible assets
Responsible Officer	Director, Corporate Finance and Advisory Services and Shared Services
Contact Officer	Senior Manager, Capital Asset Management Reporting, Corporate Finance and Advisory Services (CFAS)
Review	Every year
Effective Date	31 December 2013

1. Objective

This procedure outlines the process to account for capital expenditure incurred on IT projects, determined in accordance with AIFRS, at a departmental level (i.e. Faculties, Schools & Divisions) in NS Financials.

2. Basis of Accrual

The University IT Division manages a number of projects that are IT related initiatives. Expenditure incurred on IT projects includes equipment cost, software and related resource costs.

Project expenditure is classified as pertaining to either research or development phase. If the research phase cannot be distinguished from the development phase, expenditure on that project is treated as if it were incurred during the research phase, and expensed. Only expenditure incurred during the development phase is capitalised.

Capitalisation assessments are carried out by IT Finance, in consultation with Capital Asset Management Reporting, CFAS and the accounting treatment is determined in line with the policy on Intangible assets.

The costs are assessed to ensure all capital costs pertaining to software are captured under the Intangible work in progress (Intangible WIP) accounts until the project is completed and the asset is available for use. The expenditure incurred on equipment is capitalised to Property, Plant and Equipment (PPE) through the Asset Management System (AMS).Intangible assets are initially recognised at cost less accumulated amortisation and impairment losses.

3. Accounting Procedure

3.1 IT Finance: Automated project categorisation at the project inception phase

At the project inception phase, IT Finance updates responses to the following capital assessment criteria in the system, in order to categorise the project as ‘capital’ or ‘operating’ in nature:

1) Is the intangible asset identifiable (is it either separable, either individually or together with other assets), or does it arise from contractual/legal rights?
2) Does the University ‘control’ the intangible asset?
3) Is it probable that future economic benefits (FEBs) attributable to the asset will flow to the enterprise?
4) Can the directly attributable costs of the intangible asset be measured reliably?
5) Can the project expenditure be classified as pertaining to the development phase?

6) Has the technical feasibility of completing the asset (so that it will be available for use or sale) been demonstrated? Are there technical, financial and other resources available to complete the intangible asset?
7) Is there an intention to complete the intangible asset and either use or sell it?
8) Is there an ability to use or sell the intangible asset at the end of the project?

The cost of an internally generated intangible asset that can be capitalized is the expenditure incurred from the date when the project first meets ALL of the criteria above.

Expenditure that was initially recognized as an expense is not capitalized at a later date.

IT Finance maintains relevant documentation, to support the cost assessment of intangible assets identified, in accordance with the criteria above.

3.2 NS Financials: Monthly reporting

Costs incurred on capital projects are grouped as pertaining to ‘Hardware’ or ‘Software’ expenditure, and reclassified to one the following expense accounts:

Nature of Resource cost	Expense accounts		Balance Sheet accounts	
	Less than $5,000	**>= $5,000**	**Work in Progress (WIP)**	**Completed Asset**
Hardware:				
Computer Equipment	5210 (Computer Equipment <$5,000)	5200 (Computer Equipment >$5,000)	A/c 2203 (Buildings Work In Progress) (or create new account, if material)	2300 (Computer Equipment & Peripherl)
Other Plant & Equipment	5211 (Other Equipment < $5,000)	5630 (Plant & Equipment > $5,000)	A/c 2203 (Buildings Work In Progress) (or create new account, if material)	2705 (Other Plant and Equipment)
Software	5250 (Software Infrastructure) & 5260 (Software – Other)	5270 (Software)	2370 (Software WIP In-house)	2350 (Software Network App)

Capital Asset Management Reporting, CFAS obtains the IT Project Cost Summary from IT Finance prior to monthly closing. After review, the hardware and software expenses are capitalised to ‘Other Plant and Equipment’ and ‘Software WIP in-house’ accounts, through the Asset Management System (AMS).

On completion of projects assessed as capital in nature, IT Finance notifies Capital Asset Management Reporting, CFAS and forwards the supporting documentation. Following a review of the cost analysis, Capital Asset Management Reporting, CFAS transfers the capitalisation from ‘Software WIP in-house’ account to the intangible asset (Software Network App) account through the AMS.

4. Operational aspects

4.1 Cost centres:

Expenditure incurred on various IT projects is charged to relevant expense accounts, through the IT chartfields. Based on the assessment by IT Finance, all capital expenditure is capitalised monthly by Capital Asset Management Reporting, CFAS, to various asset accounts using the relevant chart fields from IT.

Based on the information collated from IT, data is not available at this stage to distribute the IT software costs (i.e. amortisation) to various business units, who are the actual users of the IT infrastructure. A consistent basis of allocation such as headcount, usage of equipment etc. can be used to push the IT costs to the business units.

4.2 Treatment of existing 'Cost & valuation' and 'Accumulated amortisation' balances at 'Central' level:

The existing balance in the Intangible asset and amortisation provision accounts will not be pushed down to the business units.