

Company Procedure

GFC 0077 Intangible assets including Software Capitalisation

1. Purpose

To provide guidelines to assist in determining whether expenditures on Intangible Assets specifically software projects should be classified as capital expenditure or operating expenditure. Standard setup and implementation costs are typically incurred by the business. In accordance with the requirements of the relevant accounting standard, these costs are either capitalised or expensed, depending on the stage associated with the internal development of software and the nature of the costs incurred.

2. Scope

This procedure will be applied by Business owners, Finance and Projects & Transformation on all software projects.

3. Actions

Recognition of software expenditures as an expense or asset including identification of software cost components (asset) must be made in accordance with the requirements of AASB 138 Intangible Assets. These standards address when an asset exists and how purchased and internally generated software assets should be valued. Where clarification is required or judgment needs to be applied, please contact Finance for assistance.

4. Software project expenditures

Particular care is needed when determining the appropriate treatment of costs associated with the design and implementation of software projects.

Accounting standards classify activities into 2 stages – Research and Development. Costs incurred during the development stage can be capitalised. This applies to computer software developed internally or purchased externally. Cloud vs On-premise software determination for purchased software is covered in section 3.1.3. The development stage occurs, when:

- 1) The preliminary stage has been completed, e.g., Business case has been approved.
- 2) Management commits to funding the software project.
- 3) It is probable that the project will be completed, and the software will be used for its intended function.

The capitalisation of costs should end when all substantial testing has been completed and the software is ready for its intended purpose even if this is before a “go-live” date. In addition, after a project goes live, there is typically a “stabilisation period,” during which costs should also be expensed, **unless the costs result in additional functionality.**

According to the requirements of the applicable accounting standard, the treatment for these costs are as follows:

Costs	Cost treatment
Preliminary project activities (e.g., research, vendor selection)	Expense
Development stage costs (internal or external) (3.1.1)	Capitalise
Data conversion software costs (develop or obtain)	Capitalise
Data conversion costs (3.1.2)	Expense
Configuration or customisation costs (3.1.3)	Consult Finance
Employee training costs ¹ (3.1.4)	Consult Finance
Post - implementation costs ¹ (3.1.4)	Consult Finance

¹ Where there is uncertainty on accounting treatment of costs in the table above e.g., development of training materials or post-implementation costs which are not maintenance activities contact Finance for clarification.

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4.1.1 Capitalisable costs

Costs	Cost treatment
Fees paid to third parties for services provided to develop the software (e.g., design, coding, development and testing)	Capitalise
Direct costs and materials incurred to develop or obtain the software	Capitalise
Software upgrades and enhancements to add functionality	Capitalise
Payroll and related costs for employees who are directly associated with the software project. The capitalisable costs should be limited to the extent of the time spent directly on the project.	Capitalise
Travel costs incurred by employees in connection with developing the software	Capitalise
Interest costs incurred to fund the project	Capitalise

4.1.2 Data conversion costs

Costs	Cost treatment
Purging or cleansing of existing data	Expense
Reconciliation or balance of old data	Expense
Creation of new/additional data	Expense
Conversion of existing data to new system	Expense
Data maintenance	Expense

4.1.3 Configuration or customisation costs

Configuration = involves the setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way.

Customisation = involves modifying the software code in the application or writing additional code. Customisation generally changes, or creates additional, functionalities within the software.

(1) On-premise software

For software to be considered On-premise control needs to be established. Obtaining control of the software asset can be established if any of the following conditions exist:

- Ability to take possession of the software and run it on our own or on non-supplier infrastructure – without significant penalty or loss of utility
- Exclusive use of the software
- Ownership of the IP for customised software
- Ability to control if and when to perform updates / reconfigurations
- Perpetual licence arrangements

If control can be established for On-premise software, the configuration or customisation costs can therefore be **capitalised**

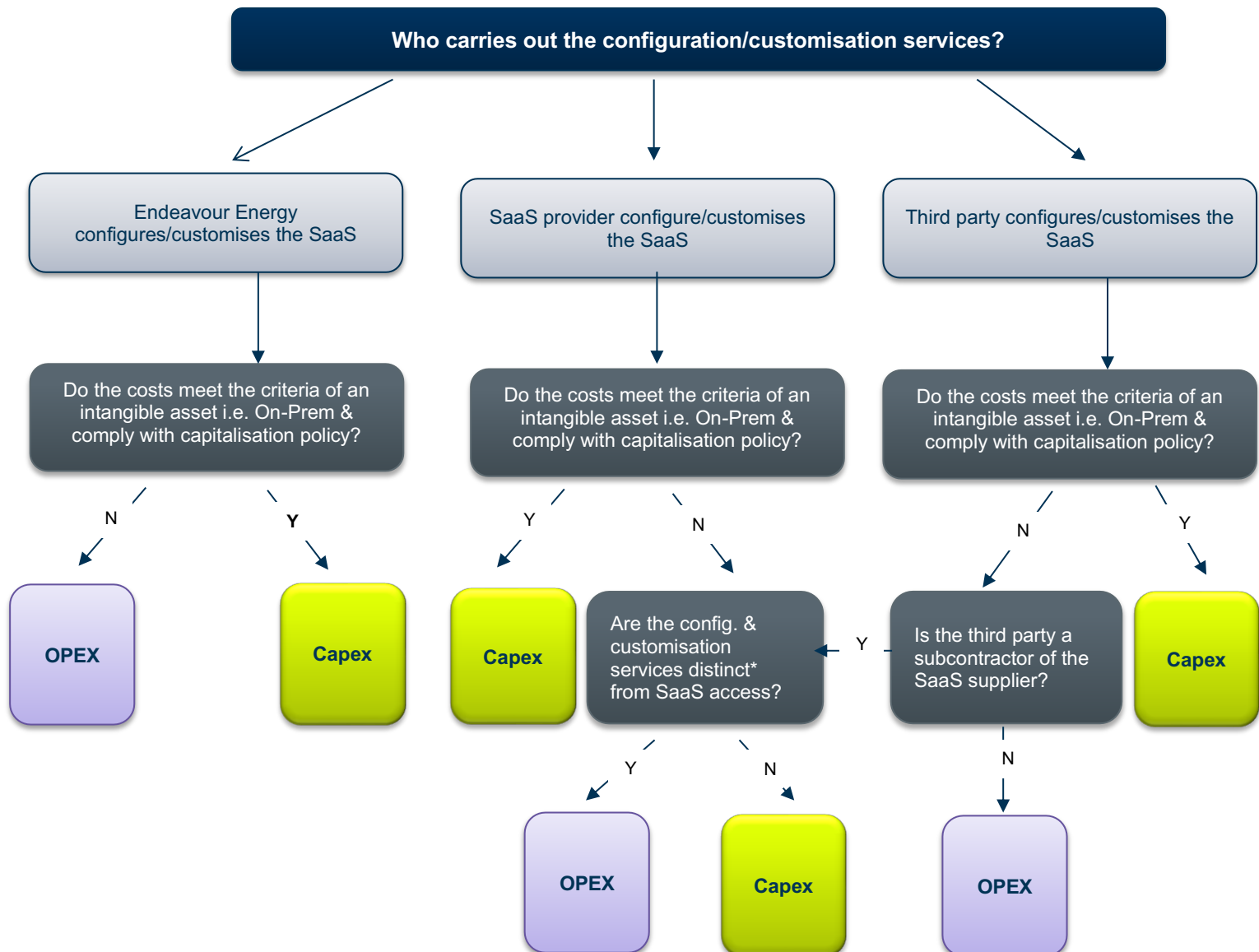
(2) Cloud computing arrangement

For off-site hosting or cloud arrangement, we are satisfied that we have no control and therefore configuration or customisation costs are to be **expensed** in accordance with the decision tree below:

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Configuration or customisation costs decision tree:



* Distinct vs Not distinct

Services are distinct when they are not separately identifiable from the customer's right to receive access to the supplier's application software.

Distinct	Not Distinct
Config. provided by another party on a standalone basis (e.g. consulting firms, SaaS competitors)	SaaS provider provides a significant integrating service to produce a combined output with other services, or
EE could use and benefit from the SaaS arrangement without the config	Service significantly modifies or customises the other service(s), or
	Services provided are highly interdependent or highly interrelated to each other.

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4.1.4 Other costs

Costs	Cost treatment
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 	Expense
Software upgrades and enhancements that did not result in new or added functionality	Expense
Decommissioning costs of old systems/hardware/software	Expense
Change management costs	Expense
General and administrative costs (i.e., overhead fees, rent, utilities, office supplies)	Expense
Employee training costs (i.e., trainer salaries & benefits, travel related to training)	Expense
Where an asset is recognised: <ul style="list-style-type: none"> Purchase of training materials, e-learning and user manuals Development of training materials, e-learning and user manuals 	Capitalise
Maintenance costs (i.e., annual software maintenance fees/licenses, upgrades that do not increase functionality/useful life, minor upgrades to keep software up to date)	Expense
Hypercare	Consult Finance

4.2 Software impairment

All assets are assessed at the end of each reporting period whether there is any indication that an asset may be impaired, and if any such indication exists, impairment testing needs to be performed.

Intangible assets with indefinite useful life or an intangible asset not yet available for use, to be reviewed at least once annually, irrespective to whether there is any indication of impairment.

5. Authorities and responsibilities

The table below summarises the key activities of this procedure and the positions who are responsible for each.

Responsible Role	Requirement/Action	Supporting Material
Chief Financial Officer	<i>Approving this procedure.</i>	<i>Nil</i>
Head of Group Financial Control	<i>Implementing, complying, and monitoring this procedure.</i>	<i>Nil</i>
Business owners, Finance and Projects & Transformation	<i>Implementing and complying with this procedure.</i>	<i>Nil</i>

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6. Terms and definitions

Terms defined in the Global Definitions Dictionary

Term	Definition
Document control	Employees who work with printed copies of documents must check the BMS regularly to monitor version control. Documents are considered “UNCONTROLLED IF PRINTED”, as indicated in the footer.

Terms that relate to this document only

Term	Definition
Carrying amount	The amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.
Cost	The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.
Development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Impairment	Associated with an asset having a carrying amount that exceeds its recoverable amount.

7. Document information

Content Coordinator	Financial Control Manager
Division	Finance
Amendment No	1
Approved By	Chief Financial Officer
Approved Date	24 May 2022
Review Date	24 May 2025
Relevant Legislation	AASB 138 Intangible Assets
Relevant Standards/Codes	Nil
Related Policies	Nil
Related Procedures / Workplace Instructions	Nil