

COMPUTER SOFTWARE	Policy Ref	PN-6
	Version No.	v 1
	Date Issued	
	AASB Ref	116, 138, UIG Interpretation 132
	Policy Owner	
	Contact No.	

Objective

1. The objective of this policy is to prescribe the accounting treatments for computer software. This policy is set up in compliance with accounting standard *AASB116- Property, Plant and Equipment and AASB138- Intangible Assets*.
2. The principal accounting issues covered under this policy are capitalisation of computer software and the amortisation and depreciation method.

Scope

3. This policy shall apply to the accounting for computer software, both internally developed and purchased.
4. This policy should also be read in conjunction with Policy PN-1 - Property, Plant and Equipment and Policy PN-5 - Intangible Assets.

Definition

5. Unless otherwise stated, the following terms are used with the meanings specified.
 - *Property, Plant and Equipment* are tangible assets that
 - (a) are held by the Company for use in the production or supply of goods and services, for rental to others or for administrative purpose and
 - (b) are expected to be used for more than one period.
 - *Intangible Asset* is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes

Fundamental Concepts

6. Computer software comprises both purchased and licensed software as well as internally developed software.

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7. Both purchased (including modification made prior to entering into service) and internally developed software can be classified as either Property, Plant and Equipment or Intangible asset depending on their use.

8. Computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and is treated as Property, Plant and Equipment (per *Policy PN 1 Property, Plant & Equipment* and *Policy PN 3 Depreciation*). The same applies to the operating system of the computer.

9. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset, refer (*Policy PN 5 Intangibles*).

10. Software shall be capitalised as Property, Plant and Equipment if it meets the definition in para 8 and if it meets the following criteria:
 - the cost can be readily measured;
 - it is probable that future economic benefits associated with the item will flow to the Company

11. Software shall be capitalised as Intangible asset if it meets the definition in para 9 and the criteria set out below:
 - An intangible asset should be identifiable and separable (i.e. can be sold or distributed without disposing off the economic benefits of other assets used in the same revenue earning activity). In addition, the Company must have the power (i.e. control) to enjoy the economic benefits flowing from the asset.
 - Economic benefits as described in Appendix A of Policy PN-1 - Property, Plant and Equipment, can either be generation of cash flow or reduction in operating expenditures.
 - the cost can be readily measured;
 - it is probable that future economic benefits associated with the item will flow to the Company

12. Internally developed software that meets the definition of an intangible asset per para 9 must also meet the criteria in para 11 and the following:
 - the development of the software is technically feasible;
 - there is intention to complete the asset

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- there are adequate resources to complete the development and to use it; and,
 - the software can be readily used by the Company
13. Costs of purchased or internally developed software that do not meet the criteria in para 10, 11 and 12 should be expensed in the Income Statement in the period that they are incurred. In addition, they should not be capitalised in a subsequent period even if an attributable economic benefit can be subsequently established. However, development cost incurred after an attributable economic benefit has been established can be capitalised.
14. Ongoing maintenance and minor modifications after the software is put into service are charged to the Income Statement as operating expenditure as and when they are incurred.

Cost to be Capitalised

15. Expenditure incurred on internally developed software that are capitalised include:
- direct materials and consultancy service cost
 - direct labour and overhead
 - directly attributable cost such as registration fees for legal rights or patents
 - fees to register or legal right
16. However, capitalised cost should not include any initial inefficiencies cost from operating the software as well as training cost incurred.

Web site costs

17. Costs incurred in developing a website by the Company for the Companies own use is an internally generated intangible asset, and therefore subject to the recognition and measurement criteria of an intangible asset (para7).
18. All expenditure on developing a web site solely or primarily for promoting and advertising the Company's own products and services is required to be recognised as an expense when incurred.

Other

For further guidance on the application of this accounting policy contact the Financial Controller.