

POLICY BRIEF

Issue Assets - 7 : Software Licences

Issue:

- *When to recognise software licences as assets?*

Intent:

- This Policy Brief is to be used only as a guide. Software Licence arrangements can vary widely and therefore will need to be considered on a case by case basis.
- Policy on computer software that is developed in-house is not covered in this Policy Brief and is yet to be developed pending completion of higher priority policies. Software developed in-house will generally satisfy the control criteria for asset recognition. However, lack of an active and liquid market for such items and the unique nature of such items may preclude reliable measurement. Examples include Land Administration and Information System (LAIS), Asset Information System (AIS) and Integrated Justice Information System (IJIS).

Background:

- Software licences are software programs purchased under a software licence agreement. There are a number of arrangements in place within the Territory Government in relation to computer software licences. Some are based on the number of machines on which the licensed program can run whereas others are based on the number of users that can access the program. The two important categories of software licences are:
 1. 'Licence to use' that permits the buyer use of the software for a specific term provided in the licence agreement. Besides an annual licence fee the user pays a maintenance fee that entitles it to receive any upgrades or revised versions of the software program. The user is required to cease use of the software on expiry of the licence term. Examples include Government Accounting System (GAS).
 2. 'Licence to own' is software acquired 'shrink wrapped' off the rack and entitles the buyer to use the software for as long as desired. The user pays a licence fee and may or may not choose to purchase a software maintenance/ upgrade that entitles it to receive any upgrades or revised versions of the software. If a software maintenance/ upgrade is not purchased the buyer may continue using the software version purchased indefinitely. These licences may be purchased outright or under a finance lease arrangement. Examples include most Microsoft licences.
- There could also be a 'hybrid' arrangement under which software programs are purchased under a software licence agreement and then customised to meet specific needs. For example, the complaint management template system recently purchased then customised by the Ombudsman and Health and Community Services Complaints Commission.

Policy:

- Computer Software will be capitalised as a non-current asset where the asset recognition criteria and the capitalisation threshold for property, plant and equipment (\$10,000) are satisfied.
- Software programs that cost less than \$10,000 will be expensed in the Statement of Financial Performance in the financial year in which they are purchased.
- Software programs purchased under a 'licence to use' will usually not satisfy the control test because of the inability of the buyer to use the software beyond the term of the licence. 'Licences to use' will therefore not be recognised as assets, rather costs will be expensed as incurred.
- Software programs purchased under a 'licence to own' will usually satisfy the asset recognition criteria because of the control vested in the buyer to use the software indefinitely. 'Licences to own' will therefore be recognised as assets where the cost is greater than or equal to \$10,000.
- Software programs under a 'hybrid' arrangement will be capitalised for the cost of the licence (where it is a 'licence to own') and the cost of the modifications required to customise the program provided the aggregate amount is greater than or equal to \$10,000.
- Where multiple licences of the same software program are purchased under one 'licence to own' agreement, consideration will need to be given to both the cost of the individual licences and the total cost under the licence agreement for the package. Where the total cost under the licence agreement is material in relation to the total value of assets controlled by the relevant Agency, it will be appropriate to capitalise the package of software licences as one asset and added to the Register of Assets.

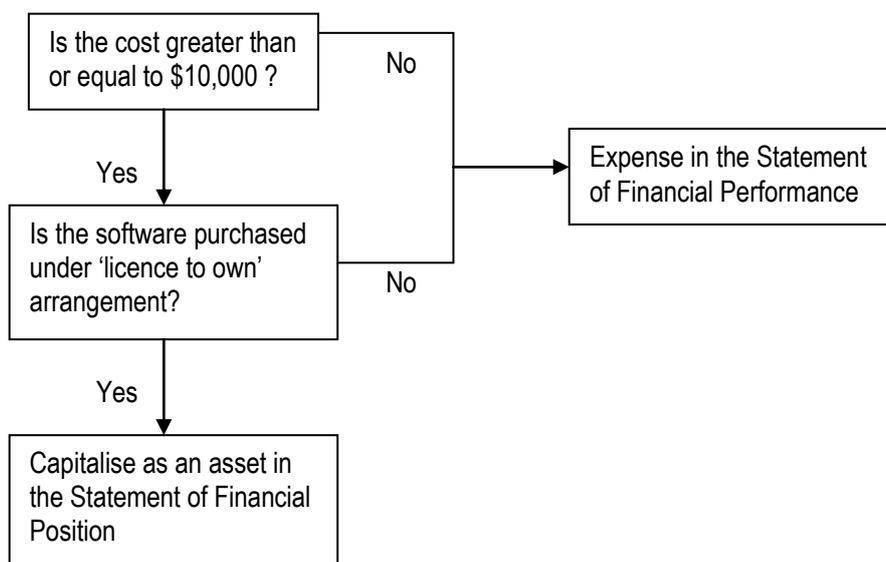
References:

TD Section A2.1 : Accounting – Assets – Overview

TD Section A2.2 : Accounting – Assets – Property, Plant and Equipment

SAC 4 : Definition and Recognition of the Elements of Financial Statements

Flowchart for the recognition of software licences as assets



Updated : December 2010