

Federal Financial Accounting Technical Release –
Implementation Guidance for Internal Use Software

NRCS response – Michael Moore

Question 1,

In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

yes with one exception

Page 7, paragraph 16: the accounting standard and TT indicate that the amortization should commence when the modules/components have successfully been tested. The general rule for PPE is that the deployment or in service date is the basis for the start of amortization / depreciation. And there is no discussion or indication as to why there is this shift from deployment/in service date to the point of the successfully tested date.

Or is successfully tested synonymous with being placed in service?

Question 2

In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

Page 9, paragraph 25: suggests that software licenses should be evaluated against lease criteria per SFFAS 5 and SFFAS 6. It may be

advantageous to separate the cost of the software licenses from the IUS asset, especially in the length of time for the licenses is not in sync with the useful life of the software. But maybe this thought could be developed and presented with a little more information.

One concern with using the lease criteria is “how would the agency determine the FMV of the software licenses to compare with the NPV of the payments to the vendor/lessor?” With real property and certain personal property there are means to obtain a FMV, but not so sure how easy / difficult it would be to obtain FMV for software licenses.

This would suggest that the cost of the licenses would be separate from the agency’s/lessee’s IUS costs, and would be reported as either a capital asset over the term of the licenses or the expected life of the licenses, or an operating expense for the appropriate fiscal years.

Another option to consider is to account for the software licenses as a prepaid cost, if material, or as a capitalized personal property asset if the per unit cost exceeds the capitalization threshold or meets bulk purchase requirements.

Question 3

In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR. Do you think that both illustration tables will help agencies? If not, please explain your reason.

I think both tables are helpful.

Question 4

Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

1. Using the example in paragraph 16, when we have a baseline software app, such as a G/L, which has the a/p and a/r subsidiaries as complimentary components that could be deployed in 3 different periods/years; what are the thoughts on the useful lives of the 3 apps? Should the useful lives of the complimentary apps end on the same date as G/L app? Or should they each have their own useful life? I would be interested to hear their thoughts, but not necessarily tied to their opinions on the question.
2. Our agency generally uses a 5 year useful life for its software (default); it would be interesting to know and understand how other agencies determine the useful lives for their software apps.