

F7/11/94

November 1995

Circular 31/95

Software Valuation for Purposes of 1995 Appropriation Accounts

A Dhuine Uasail

1. I am directed by the Minister for Finance to refer to the issue of valuation of computer software for purposes of making entries in an asset register. The following guidelines should be applied, subject to the general qualification that only software of material value with a useful economic life beyond one year should be capitalised (i.e. entered in the asset register):
2.
 - i. WordPerfect, MS Mail, Lotus etc. - only the initial cost should be entered in the register.

In general, upgrades should not be capitalised unless they result in a significant extension of the life of the software or a significant increase in capacity. On the rare occasions where this occurs, the software should be revalued at current market value for the product. Where the life of the software has not been extended by the upgrade, depreciation should be calculated by reference to a 5-year cycle commencing from the original date of acquisition. Where the life has been extended, depreciation should be reckoned by reference to a 5-year cycle commencing from the date of the upgrade.
 - ii. Software tools - only the initial cost of the licence should be entered in the register. The maintenance fees are operating costs and as such should not be capitalised.
 - iii. In-house applications - in general, a reasonable valuation of these will be acceptable. As a general rule, the valuation should not significantly exceed the market cost of similar products. If development costs are used as a basis, a deduction may have to be made for development work and related costs which have not contributed to the final value of the software produced.
 - iv. Data held on computer systems may be ignored for purposes of the Assets Register.
3. At present, a 5-year life is to be attributed to all software, although there may be an argument for attributing a different life cycle to (a) certain large in-house applications (e.g. perhaps by reference to a Department's strategic IT plan) and (b) certain upgraded applications (e.g. where a 5-year life cycle may not adequately represent the expected life of the software).
4. The above guidelines are, of course, subject to the general provisions of Circular 1/95 in regard to materiality, depreciation method etc.

Colm Gallagher
Assistant Secretary

To/All Departments etc.