

# FAS Software Accounting Policy Overview

*Effective January 1, 2019*

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## Scope

This policy defines when costs for purchased and internally-developed software or cloud-hosting arrangements must be capitalized at the University.

If direction differs between this policy and external regulations, sponsor or donor terms, or other internal policy or procedures, the more restrictive instruction will apply.

## Types

- A. **Purchased Software Applications (Packaged)** are software applications in which the coding and appearance may be modified and customized by Harvard. Harvard owns the “code,” maintains the software, and is responsible for testing and applying updates to the software application.
- B. **Internally-Developed Software** (also known as Work in Progress or “WIP” Projects) is software developed for internal use and not resale.
- C. **Purchased Software Licenses Agreements** typically involves a use license for a period of time. The software vendor typically owns the copyright to the software and the University receives a copyright license (i.e., a software license) in order to legally install and use a software application over a specified period of time. The vendor “owns” the coding and releases upgrades or updates to the software.
- D. **Subscriptions and Data Sets Subscriptions** to on-line services and systems which offer the use of information and data collected from another party (i.e., datasets) must be expensed.
- E. **Cloud-Based Computing Arrangements (CCA) and Software as a Service (SaaS) CCA and SaaS** are instances where the applications are accessible from various client devices. Harvard does not manage or control the underlying cloud infrastructure including network, servers, operating systems, and storage or application capabilities. Costs incurred under a hosting arrangement (e.g. SaaS or CCA) may only be capitalized when the hosting arrangement includes a software license.

## Capitalization vs. Expense Requirements

Summary Table of Software to Capitalize or Expense		
Cost Type	Service Contract	License Agreement
Purchased Software Applications (Packaged) ≥ \$5,000	N/A	Capitalize
Purchased Software Licenses Agreements ≥ \$5,000	N/A	Capitalize
Subscriptions and Datasets	Expense	N/A
Cloud-Based Computing Arrangement & Software as Service	Expense	May capitalize the portion related to a software license if the software license is ≥\$500,000 Requirements
Requirements Gathering and Selection	Expense	Expense
Installation, Build and Test	Expense	Capitalize
Training	Expense	Expense
Maintenance	Expense (generally included in annual subscription costs)	Expense

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## Internally Developed Software

The following are the stages and most common types of costs:

<b>Stage 1: Preliminary Project – MUST BE EXPENSED</b>
<ul style="list-style-type: none"><li>• Conceptual formulation and evaluation of alternatives</li><li>• Determining software performance requirements/specifications</li><li>• Final selection of alternative</li></ul>
<b>Stage 2: Application Development – GENERALLY CAPITALIZED</b>
<ul style="list-style-type: none"><li>• Design of chosen path, including software configuration and software interface</li><li>• Coding</li><li>• Installation to hardware</li><li>• Salary &amp; Wages and benefit-related costs if project is not on sponsored funds.</li><li>• Testing, including parallel processing phase</li></ul>
<b>Stage 3: Post-Implementation/Operation – MUST BE EXPENSED</b>
<ul style="list-style-type: none"><li>• Training</li><li>• Software application maintenance</li><li>• Upgrades that do not contribute to additional functionality</li></ul>
<p>Stage three begins when substantial testing is complete and the software is ready for its intended purpose and placed in service. Costs incurred after substantial testing is complete and the software is ready for its intended purpose but before a “go- live” date should be expensed. In addition, after a project goes live, there is typically a “stabilization period,” during which costs should also be expensed, unless the costs result in additional functionality. Additional costs incurred before or after these three stages for business process reengineering and information technology transformation are generally expensed.</p>
<b>Note on the Timing of Costs</b>
<p>The types of costs discussed under each of the three development stages may occur throughout the project. For example, coding and testing often occur simultaneously, and some training may occur during the application development stage. Regardless, for costs incurred after the preliminary project stage, apply the policy to the nature of the costs incurred, not their timing.</p>

A full version of the Software Accounting Policy (previously called Accounting for Internally-Developed Software) can be found at the [Financial Policy Website](#).

**Note:** All software purchases and applications may be subject to restrictions based on Harvard’s Enterprise Security Policy and may require other components such as the accessibility standards. Contact your local IT office prior to purchasing software.