

Whether the installation cost of stand-alone computer software recognize as an expense?

D.N.A.D.S.M.Nissanka & A.M.L.Lakshan
shanikamadhushani@yahoo.com & lakshan@kln.ac.lk

Introduction:

Tele employee security fund is a not for profits organization, registered as a society in Sri Lanka.

Certain officers of the telegraph department of the government of Ceylon are required to keep security for the due performance of their duties performed. For this purpose to make an initial deposit on first appointment and thereafter to pay monthly contribution from their salaries until the required security been completely furnished.

The organization keep their records manually for this purpose and maintain lot of books and it takes considerable time to complete work manual. Due to limitation of manual process Board of Management of the security fund decided to install tailor made accounting software to maintain the accounts. Therefore, they call quotation from IT facility providers and select one provider. That company made stand - alone computer software call " TELE-FUND".

Discussion of the Issue:

Cost of computer software recognized as an Expense and charged in to Income and Expenditure account - LKAS 38 – Intangible Asset)

The Society prepared annual account on 31st of December each year. The organization installed tailor made accounting

software to maintain the accounts and keep records on collection and payment call "TELE-FUND". Cost of this software is Rs.1,500,000. After the financial year end 2012, when prepared financial statements the accountant of fund recorded the cost of Computer Software as an expense and charged it to Income & Expenditure account.

The issue caused to,

- ✓ Statement of Comprehensive Income - Surplus for the year.
This discrepancy make it look like reporting business make less money during given period leading to lower net income. As a result financial performance of the society undervalued.
- ✓ Statement of Financial position-Understated of the value of the asset.
- ✓ Cash Flow Statement- Classification of cash flow statement changed.

Conclusions and Recommendations:

According to LKAS 38 requires an enterprise to recognize an intangible asset according to the following recognition criteria:

- ✓ It is probable that the expected future economic benefits that are attributable to the asset will flow to the enterprise; and
- ✓ The cost of the asset can be measured reliably.

In this case installing this software the organization gets more benefits such as increase capacity, quality, save time as well as the cost of the software can measured reliably.

Therefore it is recommended that the installation cost of stand-alone computer software recognize as an intangible asset & amortized over the useful life, cost of Software do not recognize as an expense since expected future economic benefits are attributable to the asset will flow to the enterprise and cost of the asset can be measured reliably according to LKAS 38- Intangible Asset and also the organization should follow SL SoRP – NPOs Guidelines (Sri Lanka Statement of Recommended Practice For Not For Profit Organizations) since this is not for profit organization.