

Interpretation of the Emerging Accounting Issues Working Group

INT 01-21: SSAP Nos. 16R, 19 and 68 – Reestablishment of Previously Expensed Software and Furniture, Fixtures and Equipment and Goodwill

GUIDANCE DETERMINED TO BE NO LONGER RELEVANT

INT 01-21 Dates Discussed

March 26, 2001; June 11, 2001

INT 01-21 References

SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software (SSAP No. 16R)

SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements (SSAP No. 19)

SSAP No. 68—Business Combinations and Goodwill (SSAP No. 68)

SSAP No. 79—Depreciation of Nonoperating System Software – An Amendment to SSAP No. 16—Electronic Data Processing Equipment and Software (SSAP No. 79)

INT 01-21 Issue

1. Prior to January 1, 2001, some reporting entities elected to expense software and furniture, fixtures and equipment when these items were purchased. Some of these purchases are material in amount. Under the rules effective prior to Codification, this was acceptable statutory practice.
2. The following is excerpted from Chapter 8 of the *Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies* (statutory guidance prior to SSAP Nos. 16R and 19):

Application systems software, such as language processors, library routines and debugging aids, and other computer software are not considered operating system software and may be expensed when purchased or established as a nonadmitted asset and written off over a period of years not to exceed the software's expected useful life (See Chapter 9).
3. The language in the *Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies* did not mention the option of expensing when purchased; it simply stated that application systems software.... may not be recognized as admitted assets.
4. The transition guidance in SSAP Nos. 16R and 19 do not provide for grandfathering of prior purchases of software, and furniture, fixtures and equipment. Therefore, a strict interpretation of these SSAPs would suggest that reporting entities recompute the net asset value (cost less the appropriate depreciation) and report this amount on their 2001 statutory financial statements, and then nonadmit the net asset.
5. The accounting issue is whether reporting entities are required to recompute the net asset value (cost less the appropriate depreciation) and report this amount on their 2001 statutory financial statements, and then nonadmit the net asset.

INT 01-21 Discussion

6. The working group reached a consensus that reporting entities who purchased and immediately expensed software and furniture, fixtures and equipment prior to January 1, 2001 shall not be required to compute and reestablish the net asset value of the asset, and nonadmit and subsequently depreciate the asset on the 2001 and subsequent statutory financial statements.

INT 01-21 Status

7. No further discussion planned.