SOP 98-01 vs. CAS

Written by Nick Sanders
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Hi Ron,   Sorry it's taken so long to post a reply. Apogee Consulting, Inc. has been on its annual Fall maintenance shut-down. Anyway, you are absolutely correct that there is a conflict between SOP 98-01 and CAS regarding what costs may be capitalized for internal-use software. The DCAA Contract Audit Manual acknowledges this conflict (see 7-104 for example). So you are in trouble no matter what you do. Here's my advice --   1. Follow GAAP. Do not capitalize overhead and G&A.   2. Quantify the amount of allocable overhead and G&A you are expensing instead of capitalizing. Evaluate the materiality of that amount. When evaluating the materiality, note that allowable depreciation will be less than if you followed CAS, but that current period expenses will be higher because of unallocated expenses. You are looking at the difference between the two methods.   3. If immaterial, ignore. You can't be in noncompliance for an immaterial amount of costs.   4. If material, seek an advance agreement (see the CAM at 7-104.3 b. for some helpful language).   5. Consider amending your DS-1 to address capitalized values for development of software for internal use.   I trust this is helpful.   Regards,   Nick Sanders   Principal Consultant   Apogee Consulting, Inc.