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# Software Industry Accounting



# Software Industry Accounting

*Second Edition*

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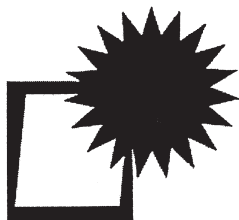
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*This book is dedicated to Lt. Col. Edwin R.  
Campbell, US Army (Ret).*

*And to the contributing authors, with admiration  
and appreciation.*





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# Acknowledgments

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J. M. M.

# Preface

The first edition of *Software Industry Accounting*, published in 1993, was recognized as the “*Best New Book in Accounting Practice for 1993*” by the Association of American Publishers. We had a very dynamic topic to work with and a uniquely qualified team of contributing authors. Things haven’t changed a bit (so to speak) through 2001. Our topic continues to be dynamic and the team of contributing authors for this second edition are uniquely qualified.

When we published the first edition, AICPA Statement of Position (“SOP”) 91-1, *Software Revenue Recognition*, had just come into being after many years of work by the AICPA Task Force. That was a landmark accounting pronouncement for the software industry and it has run its entire life cycle. It was replaced by SOP 97-2, also named *Software Revenue Recognition*, which comes at the subject from a completely different direction. It essentially says to forget almost everything in SOP 91-1 and start over. Don Keller and Dean Martinez, of PricewaterhouseCoopers LLP, have prepared a very insightful chapter on software revenue recognition under the new rules of SOP 97-2. They explore the implications of each rule and give extensive illustrations that are comparable to real-life situations faced in practice. The depth of their insight into software revenue recognition is only possible because of their significant experience in practice in the software industry.

Paul Munter, Chairman of the Accounting Department of the University of Miami, has updated and enhanced the software capitalization chapter, which covers an area that stands alongside revenue recognition as a truly unique software industry accounting subject. The updates include the addition of an in-depth analysis of AICPA SOP 98-1 on accounting for internal-use software and the continuing developments related to large one-time charges taken for allocation to in-process research and development projects acquired in purchase method business combinations.

Frank O’Brien, CFO of ICU Medical, Inc., and a member of the original AICPA Task Force that developed SOP 91-1, has prepared a chapter that traces the development of accounting principles for the software industry through the completion of SOP 91-1 and then through SOP 97-2.

Jim Brendel, of Hein + Associates LLP, has prepared two chapters, one specifically devoted to the complex application of contract accounting in the software industry and a second chapter that covers the independent auditor’s perspective in audits of software companies.