

**RBI/2005-06/286**  
**UBD. BPD. PCB. Cir. No. 28 /12.05.001/2005-06**

January 24 , 2006

The Chief Executive Officers of all  
Primary (Urban) Co-operative Banks

Dear Sir / Madam,

**Amortization of expenses incurred on software - UCBs**

Please refer to our circular UBD. BPD.PCB.Cir.7/09.50.00/2003-04 dated August 5, 2003 in terms of which UCBs are allowed to charge depreciation on computers on a straight-line method at the rate of 33.33 per cent per annum. In this context it is observed that there is no uniform practice among banks in regard to amortization of the cost incurred towards acquiring software. In order to have uniformity in approach, the matter has been examined and the following guidelines are issued in regard to the cost of the software, the period and the method of amortization to be followed in respect of software expenses.

**2. Cost of software**

Computer software for internal use can be developed internally or acquired. The cost of internally generated software comprises all expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the software for its intended use. The costs include expenditure on materials and services used or consumed, the salaries, wages and other employment related costs of personnel directly engaged in developing the software, and overheads that are necessary to develop the software and that can be allocated on a reasonable and consistent basis to the software. Selling, administration and other overhead expenditure that cannot be directly attributable to the development of the software and expenditure on training the staff to use the internally developed software may not be treated as components of the cost of an internally developed software:

The cost of software purchased for internal use comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities) and any directly attributable expenditure on making the software ready for its use. Any trade discounts and rebates have to be deducted in arriving at the cost.

**3. Amortization period / Method**

Taking into consideration the fact that computer software is susceptible to rapid technological obsolescence, UCBs are advised to amortize the cost of the software over a three-year period by using straight-line method, i.e.@33.33% annually.

4. Please acknowledge receipt of this circular to the concerned Regional Office.

Yours faithfully,

(N.S.Vishwanathan)  
Chief General Manager In-Charge