

SIC 32

Intangible assets – web site costs

REFERENCES

- IAS 1 Presentation of financial statements
- IAS 2 Inventories
- IAS 16 Property, plant and equipment
- IAS 36 Impairment of assets
- IAS 38 Intangible assets
- IFRS 3 Business combinations
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

ISSUE

The issue here is how expenditure incurred in creating a web site in-house should be recognized, regardless of whether this web site is intended for external or internal access.

A web site designed for external access may be used for various purposes such as promotion, advertising and the sale of products or services provided by the company.

A web site designed for internal access may be used, for example, as a means of internal communication or as a technical or commercial database.

The main stages of setting up a web site are the following:

- planning: feasibility studies, defining of objectives, drafting of specifications;
- application and infrastructure development: obtaining a domain name, choosing software and operating hardware;
- graphical design development: designing the appearance of web pages;
- content development: creating, purchasing, preparing and uploading graphical, quantitative or textual information.

As a reminder, operating hardware expenditure is recognized by applying IAS 16. Expenditure incurred to create web sites intended to be sold to third parties is not covered by IAS 38 applicable to intangible assets, but is a part of the cost of sales, incurred in generating income in the ordinary course of business.

POSITION ADOPTED

A company's own web site, whether intended for internal or external access or use, which has been developed by using the company's in-house resources, is considered to be an internally-generated intangible asset and subject to the requirements of IAS 38.

However, recognizing a web site under intangible assets requires the company to demonstrate that the web site will generate probable future economic benefits for it, for example demonstrating that it is capable of generating revenues including direct revenues as a result of enabling customers to place orders, and to make sales for the company.

On the other hand, however, if a company cannot demonstrate the existence of future economic benefits from the development costs of a web site, these costs must be recognized as an expense when incurred.

When the company's web site is considered to be an intangible asset, internal expenditure related to the planning phase should be treated as an expense when it is incurred.

Internal expenditure related to the application and infrastructure development stage is regarded as part of the cost of the intangible asset, once the conditions for capitalization have been met (including, technical feasibility of completing the site, availability of adequate technical, financial and other resources to complete the development of the site, demonstrating the existence of future economic benefits for the company).

Web site maintenance and updating expenditure incurred once the site is operational is usually considered as an expense when it is incurred.

When a web site has been recognized as an intangible asset in accordance with IAS 38, it should be periodically revalued for impairment as provided for in this Standard. It is further specified that the best estimate of a web site's useful life serving as the basis for amortization should be short.