

INTANGIBLE ASSETS — WEB SITE COSTS: SIC INTERPRETATION 32

- A **web site designed for external access** may be used for various purposes such as to:
 - advertise products and services,
 - provide electronic services, and
 - sell products and services
- A **web site designed for internal access** may be used to:
 - store company policies/customer details, and
 - search relevant information.
- Stages of a web site's development
 1. **Planning** – undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
 2. **Application and Infrastructure Development** –obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
 3. **Graphical Design Development** – includes designing the appearance of web pages.
 4. **Content Development** –creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development
- Once website development is completed, the operating stage begins (in this stage the company maintains the website)
- The cost of purchasing, developing, and operating hardware (e.g. servers and Internet connections) of a web site are accounted for as **property, plant and equipment (IAS 16)**
- This section also doesn't apply to situations where you are in the business of creating websites for others
- Expenditure on an Internet service provider hosting the entity's web site is expensed

Criteria:

To capitalize the costs of website development you need to meet the following criteria:

1. It is **probable that the expected future economic benefits** that are attributable to the asset will flow to the entity
2. The cost of the asset can be **measured reliably**
3. Must meet criteria for capitalizing development phase costs:
 - i. the **technical feasibility** of completing the website
 - ii. its **intention to complete** the website and use it
 - iii. its **ability to use** website
 - iv. how the website asset will generate **probable future economic benefits**
 - v. the availability of **adequate technical, financial and other resources** to complete the development and to use the website
 - vi. ability to measure the expenditure attributable to the website during its development

- An entity is not able to demonstrate how a web site developed primarily for **promoting and advertising its own products and services** will generate probable future economic benefits; all expenditure on developing such a web site shall be recognised as an **expense when incurred**

Stages of website development and accounting Treatment:

Stage	Accounting Treatment
Planning Stage	<ul style="list-style-type: none"> - Treated like research costs - Planning stage expenses are expensed
Application and Infrastructure Development stage, Graphical Design stage, Content Development stage	<ul style="list-style-type: none"> - Capitalized as an intangible asset long as expenditure is <i>not for advertising</i> entity's products on the website (i.e. photographs of products) and can be <i>directly attributed</i> to the website development
Operating stage	<ul style="list-style-type: none"> - Expensed

Subsequent Measurement:

- Follow IAS 38 and use the cost model or the revaluation model (usually cost model is used)
- SIC 32 recommends that the best estimate of a web site's **useful life should be short**