

Compiled Interpretation Interpretation 132

Intangible Assets – Web Site Costs

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2011. Early application is permitted. It incorporates relevant amendments made up to and including 27 October 2010.

Prepared on 26 November 2010 by the staff of the Australian Accounting Standards Board.



Australian Government

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COMPILATION DETAILS

UIG Interpretation 132 *Intangible Assets – Web Site Costs* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2011. It takes into account amendments up to and including 27 October 2010 and was prepared on 26 November 2010 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 132 (July 2004) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	Month issued	Application date (<i>annual reporting periods ... on or after ...</i>)	Application, saving or transitional provisions
Interpretation 132	Jul 2004	(<i>beginning</i>) 1 Jan 2005	
AASB 2007-8	Sep 2007	(<i>beginning</i>) 1 Jan 2009	see (a) below
AASB 2010-5	Oct 2010	(<i>beginning</i>) 1 Jan 2011	see (b) below

- (a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2011.

Table of Amendments to Interpretation

Paragraph affected	How affected	By ... [paragraph]
5	amended	AASB 2007-8 [160]
9	amended	AASB 2010-5 [81]
Aus10.4	amended	AASB 2007-8 [8]

Table of Amendments to Illustrative Example

Paragraph affected	How affected	By ... [paragraph]
Title, rubric	amended	AASB 2010-5 [82]

COMPARISON WITH SIC-32

UIG Interpretation 132 *Intangible Assets – Web Site Costs* as amended incorporates Standing Interpretations Committee Interpretation SIC-32 *Intangible Assets – Web Site Costs*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of SIC-32) are identified with the prefix “Aus”, followed by the number of the preceding SIC paragraph and decimal numbering.

Entities that comply with Interpretation 132 as amended will simultaneously be in compliance with SIC-32 as amended.

INTERPRETATION 132

UIG Interpretation 132 was issued in July 2004.

This compiled version of Interpretation 132 applies to annual reporting periods beginning on or after 1 January 2011. It incorporates relevant amendments contained in other AASB pronouncements up to and including 27 October 2010 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 132

INTANGIBLE ASSETS – WEB SITE COSTS

Issue

- 1 An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to promote and advertise an entity's own 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 and customer details, and search relevant information.
- 2 The stages of a web site's development can be described as follows:
 - (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences;
 - (b) Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing;
 - (c) Graphical Design Development – includes designing the appearance of web pages; and
 - (d) Content Development – includes 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. This information may either be stored in separate

databases that are integrated into (or accessed from) the web site or coded directly into the web pages.

- 3 Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.
- 4 When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:
 - (a) whether the web site is an internally generated intangible asset that is subject to the requirements of Accounting Standard AASB 138 *Intangible Assets*; and
 - (b) the appropriate accounting treatment of such expenditure.
- 5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (e.g. web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under AASB 116 *Property, Plant and Equipment*. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under AASB 101.88 and the *Framework* when the services are received.
- 6 AASB 138 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see AASB 102 *Inventories* and AASB 111 *Construction Contracts*) or leases that fall within the scope of AASB 117 *Leases*. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Interpretation. When a web site is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset.

Consensus

- 7 **An entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of AASB 138.**
- 8 **A web site arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in AASB 138.21 for recognition**

and initial measurement, an entity can satisfy the requirements in AASB 138.57. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits in accordance with AASB 138.57(d) when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred.

- 9 Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with AASB 138. The nature of each activity for which expenditure is incurred (e.g. training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment (additional guidance is provided in the illustrative example accompanying this Interpretation). For example:
- (a) the Planning stage is similar in nature to the research phase in AASB 138.54-.56. Expenditure incurred in this stage shall be recognised as an expense when it is incurred;
 - (b) the Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services, are similar in nature to the development phase in AASB 138.57-.64. Expenditure incurred in these stages shall be included in the cost of a web site recognised as an intangible asset in accordance with paragraph 8 of this Interpretation when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (e.g. a fee for acquiring a licence to reproduce) on the web site, shall be included in the cost of development when this condition is met. However, in accordance with AASB 138.71, expenditure on an intangible item that was initially recognised as an expense in previous financial statements

shall not be recognised as part of the cost of an intangible asset at a later date (e.g. if the costs of a copyright have been fully amortised, and the content is subsequently provided on a web site);

- (c) expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (e.g. digital photographs of products), shall be recognised as an expense when incurred in accordance with AASB 138.69(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site; and
- (d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in AASB 138.18.

- 10 A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation shall be measured after initial recognition by applying the requirements of AASB 138.72-.87. The best estimate of a web site's useful life shall be short.

Application

- Aus10.1 This Interpretation applies when AASB 138 applies.
- Aus10.2 This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]
- Aus10.3 This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus10.4 The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus10.5 When applicable, this Interpretation supersedes Abstract 37 *Accounting for Web Site Costs*, as issued in January 2001.

Aus10.6 Abstract 37 remains applicable until superseded by this Interpretation.

Discussion

- 11 An intangible asset is defined in AASB 138.8 as an identifiable non-monetary asset without physical substance. AASB 138.9 provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset.
- 12 AASB 138.68 requires expenditure on an intangible item to be recognised as an expense when incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in AASB 138.18-.67. AASB 138.69 requires expenditure on start-up activities to be recognised as an expense when incurred. An entity developing its own web site for internal or external access is not undertaking a start-up activity to the extent that an internally generated intangible asset is created. The requirements and guidance in AASB 138.52-.67, in addition to the general requirements described in AASB 138.21 for recognition and initial measurement of an intangible asset, apply to expenditure incurred on the development of an entity's own web site. As described in AASB 138.65-.67, the cost of a web site recognised as an internally generated intangible asset comprises all expenditure that can be directly attributed and is necessary to creating, producing and preparing the asset for it to be capable of operating in the manner intended by management.
- 13 AASB 138.54 requires expenditure on research (or on the research phase of an internal project) to be recognised as an expense when incurred. The examples provided in AASB 138.56 are similar to the activities undertaken in the Planning stage of a web site's development. Consequently, expenditure incurred in the Planning stage of a web site's development is recognised as an expense when incurred.
- 14 AASB 138.57 requires an intangible asset arising from the development phase of an internal project to be recognised only if an entity can demonstrate fulfilment of the six criteria specified. One of the criteria is to demonstrate how a web site will generate probable future economic benefits (AASB 138.57(d)). AASB 138.60 indicates that this criterion is met by assessing the economic benefits to be received from the web site and using the principles in AASB 136 *Impairment of Assets*, which considers the present value of estimated future cash flows from continuing use of the web site. Future economic benefits flowing from an intangible asset, as stated in AASB 138.17, may include revenue from the sale of products or

services, cost savings, or other benefits resulting from the use of the asset by the entity. Therefore, future economic benefits from a web site may be assessed when the web site is capable of generating revenues. A web site developed solely or primarily for advertising and promoting an entity's own products and services is not recognised as an intangible asset, because the entity cannot demonstrate the future economic benefits that will flow. Consequently, all expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred.

- 15 Under AASB 138.21, an intangible asset is recognised if, and only if, it meets specified criteria. AASB 138.65 indicates that the cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the specified recognition criteria. When an entity acquires or creates content for purposes other than to advertise and promote an entity's own products and services, it may be possible to identify an intangible asset (e.g. a licence or a copyright) separate from a web site. However, a separate asset is not recognised when expenditure is directly attributed to creating, producing, and preparing the web site for it to be capable of operating in the manner intended by management – the expenditure is included in the cost of developing the web site.
- 16 AASB 138.69(c) requires expenditure on advertising and promotional activities to be recognised as an expense when incurred. Expenditure incurred on developing content that advertises and promotes an entity's own products and services (e.g. digital photographs of products) is an advertising and promotional activity, and consequently recognised as an expense when incurred.
- 17 Once development of a web site is complete, an entity begins the activities described in the Operating stage. Subsequent expenditure to enhance or maintain an entity's own web site is recognised as an expense when incurred unless it meets the recognition criteria in AASB 138.18. AASB 138.20 explains that most subsequent expenditures are likely to maintain the future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria set out in AASB 138. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure – expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset – be recognised in the carrying amount of an asset.

- 18 An intangible asset is measured after initial recognition by applying the requirements of AASB 138.72-.87. The revaluation model in AASB 138.75 is applied only when the fair value of an intangible asset can be determined by reference to an active market. However, as an active market is unlikely to exist for web sites, the cost model applies. Additionally, as indicated in AASB 138.92, many intangible assets are susceptible to technological obsolescence, and given the history of rapid changes in technology, the useful life of web sites will be short.

Date of SIC's Consensus: [Deleted by the UIG]

Effective Date of SIC-32: [Deleted by the UIG]

ILLUSTRATIVE EXAMPLE

This example accompanies, but is not part of, Interpretation 132. Its purpose is to illustrate examples of expenditure that occur during each of the stages described in paragraphs 2 and 3 of the Interpretation and illustrate application of the Interpretation to assist in clarifying its meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

Example Application of Interpretation 132

Stage / Nature of Expenditure	Accounting treatment
<p>Planning</p> <ul style="list-style-type: none"> undertaking feasibility studies defining hardware and software specifications evaluating alternative products and suppliers selecting preferences 	<p>Recognise as an expense when incurred in accordance with AASB 138.54</p>
<p>Application and Infrastructure Development</p> <ul style="list-style-type: none"> purchasing or developing hardware 	<p>Apply the requirements of AASB 116</p>
<ul style="list-style-type: none"> obtaining a domain name developing operating software (e.g. operating system and server software) developing code for the application installing developed applications on the web server stress testing 	<p>Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in AASB 138.21 and AASB 138.57*</p>
<p>Graphical Design Development</p> <ul style="list-style-type: none"> designing the appearance (e.g. layout and colour) of web pages 	<p>Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in AASB 138.21 and AASB 138.57*</p>

Stage / Nature of Expenditure	Accounting treatment
<p>Content Development</p> <p>creating, purchasing, preparing (e.g. creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access</p>	<p>Recognise as an expense when incurred in accordance with AASB 138.69(c) to the extent that content is developed to advertise and promote an entity's own products and services (e.g. digital photographs of products). Otherwise, recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in AASB 138.21 and AASB 138.57*</p>
<p>Operating</p> <p>updating graphics and revising content adding new functions, features and content registering the web site with search engines backing up data reviewing security access analysing usage of the web site</p>	<p>Assess whether it meets the definition of an intangible asset and the recognition criteria set out in AASB 138.18, in which case the expenditure is recognised in the carrying amount of the web site asset</p>
<p>Other</p> <p>selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g. false-start testing) training employees to operate the web site</p>	<p>Recognise as an expense when incurred in accordance with AASB 138.65-.70</p>

- * All expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred in accordance with AASB 138.68.

REFERENCES

Australia

The Urgent Issues Group discussed Issues Paper UIG/SIC 04/1 “Adoption of Various SIC Interpretations in Australia” in relation to this Interpretation at its meeting on 4 May 2004.

Accounting Standard AASB 101 *Presentation of Financial Statements*

Accounting Standard AASB 102 *Inventories*

Accounting Standard AASB 111 *Construction Contracts*

Accounting Standard AASB 116 *Property, Plant and Equipment*

Accounting Standard AASB 117 *Leases*

Accounting Standard AASB 136 *Impairment of Assets*

Accounting Standard AASB 138 *Intangible Assets*

Framework for the Preparation and Presentation of Financial Statements

International Accounting Standards Board

International Accounting Standard IAS 38 *Intangible Assets*

Standing Interpretations Committee Interpretation SIC-32 *Intangible Assets – Web Site Costs*