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## Basis for Conclusions

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*[The original text has been marked up to reflect the revision of IAS 16 in 2003 and the subsequent issue of IFRS 3: new text is underlined and deleted text is struck through]*

- 11 An intangible asset is defined in IAS 38.87 as an identifiable non-monetary asset without physical substance ~~held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.~~ IAS 38.98 provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset.
- 12 IAS 38.6856 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 IAS 38.18-6755. IAS 38.6957 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 IAS 38.52-6740.55, in addition to the general requirements described in IAS 38.2149 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 IAS 38.65-6753-55, the cost of a web site recognised as an internally generated intangible asset comprises all expenditure that can be directly attributed, ~~or allocated on a reasonable and consistent basis,~~ and is necessary to creating, producing and preparing the asset for it to be capable of operating in the manner intended by management its intended use.
- 13 IAS 38.5442 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 IAS 38.5644 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 IAS 38.5745 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 (IAS 38.5745(d)). IAS 38.6048 indicates that this criterion is met by assessing the economic benefits to be received from the web site and using the principles in IAS 36 *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 IAS 38.17, 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 IAS 38.2149, an intangible asset is recognised if, and only if, it meets specified criteria. IAS 38.6553 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 (eg a licence or a copyright) separate from a web site. However, a separate asset is not recognised when expenditure is directly attributed, ~~or allocated on a reasonable and consistent basis~~, to creating, producing, and preparing the web site for it to be capable of operating in the manner intended by management ~~its intended use~~—the expenditure is included in the cost of developing the web site.
- 16 IAS 38.6957(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 (eg digital photographs of products) is an advertising and promotional activity, and consequently recognised as an expense when incurred ~~in accordance with IAS 38.57(e)~~.
- 17 ~~Once development of a web site is complete, an enterprise begins the activities described in the Operating stage. Subsequent expenditure to enhance or maintain an enterprise's own web site is recognised as an expense when incurred unless it meets the recognition criteria in IAS 38.60. IAS 38.61 explains that if the expenditure is required to maintain the asset at its originally assessed standard of performance, then the expenditure is recognised as an expense when incurred.\*~~  
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 IAS 38.18. IAS 38.20 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 IAS 38. 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

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\* IAS 16 *Property, Plant and Equipment* as revised by the IASB in 2003 requires all subsequent costs to be covered by its general recognition principle and eliminated the requirement to reference the originally assessed standard of performance. IAS 38 was amended as a consequence of the change to IAS 16 and the paragraphs specifically referred to were eliminated. This paragraph has been struck through to avoid any confusion.

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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 IAS 38.~~72–87~~~~63–78~~. The revaluation model ~~Allowed Alternative Treatment~~ in IAS 38.~~75~~~~64~~ 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 ~~Benchmark Treatment~~ applies. Additionally, ~~since IAS 38.84 states that an intangible asset always has a finite useful life, a web site that is recognised as an asset is amortised over the best estimate of its useful life under IAS 38.79. As~~ as indicated in IAS 38.~~92~~~~81~~, 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 consensus**

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May 2001

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\* The new text was added by IFRS 3 *Business Combinations* in 2004.

## Appendix to SIC-32

*This appendix accompanies, but is not part of, SIC-32. The purpose of the appendix is to illustrate examples of expenditure that occur during each of the stages described in paragraphs 2 and 3 of SIC-32 and illustrate application of SIC-32 to assist in clarifying its meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.*

### Example application of SIC-32

Stage/nature of expenditure	Accounting treatment
<b>Planning</b> <ul style="list-style-type: none"> <li>• undertaking feasibility studies</li> <li>• defining hardware and software specifications</li> <li>• evaluating alternative products and suppliers</li> <li>• selecting preferences</li> </ul>	Recognise as an expense when incurred in accordance with IAS 38.54
<b>Application and infrastructure</b> <ul style="list-style-type: none"> <li>• purchasing or developing hardware</li> <li>• obtaining a domain name</li> <li>• developing operating software (eg operating system and server software)</li> <li>• developing code for the application</li> <li>• installing developed applications on the web server</li> <li>• stress testing</li> </ul>	Apply the requirements of IAS 16 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 IAS 38.21 and IAS 38.57 <sup>(a)</sup>
<b>Graphical design development</b> <ul style="list-style-type: none"> <li>• designing the appearance (eg layout and colour) of web pages</li> </ul>	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 IAS 38.21 and IAS 38.57 <sup>(a)</sup>

<b>Content development</b>	
<ul style="list-style-type: none"> <li>creating, purchasing, preparing (eg 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</li> </ul>	Recognise as an expense when incurred in accordance with IAS 38.69(c) to the extent that content is developed to advertise and promote an entity's own products and services (eg 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 IAS 38.21 and IAS 38.57 <sup>(a)</sup>
<b>Operating</b>	
<ul style="list-style-type: none"> <li>updating graphics and revising content</li> <li>adding new functions, features and content</li> <li>registering the web site with search engines</li> <li>backing up data</li> <li>reviewing security access</li> <li>analysing usage of the web site</li> </ul>	Assess whether it meets the definition of an intangible asset and the recognition criteria set out in IAS 38.18, in which case the expenditure is recognised in the carrying amount of the web site asset
<b>Other</b>	
<ul style="list-style-type: none"> <li>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</li> <li>clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance [eg false start testing]</li> <li>training employees to operate the web site</li> </ul>	Recognise as an expense when incurred in accordance with IAS 38.65–.70
(a) 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 IAS 38.68.	