ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

INTANGIBLE ASSETS – WEBSITE COSTS

(IGRAP 16)

Issued by the
Accounting Standards Board

March 2012

Acknowledgement

This Interpretation of Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent SIC Interpretation on *Intangible Assets – Web Site Costs* (SIC 32) published by the International Accounting Standards Board (IASB) in March 2002. The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of SIC 32 are reproduced in this Interpretation of Standards of GRAP with the permission of the IASB.

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Introduction

This pronouncement is set out in paragraphs .01 to .13. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

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[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

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Interpretation of the Standards of GRAP on Intangible Assets – Website Costs

References

- GRAP 1 *Presentation of Financial Statements*
- GRAP 11 *Construction Contracts*
- GRAP 12 *Inventories*
- GRAP 13 *Leases*
- GRAP 17 *Property, Plant and Equipment*
- GRAP 21 *Impairment of Non-cash-generating Assets*
- GRAP 26 *Impairment of Cash-generating Assets*
- GRAP 31 *Intangible Assets*

Issue

.01 An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

.02 The stages of a website'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.

(d) Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

.03 Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

.04 When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

(a) whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on *Intangible Assets* (GRAP 31); and

(b) the appropriate accounting treatment of such expenditure.

.05 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 website. Such expenditure is accounted for under the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) and the *Framework for the Preparation and Presentation of Financial Statements*[2] when the services are received.

.06 GRAP 31 does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on *Construction Contracts* and *Inventories)* or leases that fall within the scope of the Standard of GRAP on *Leases*. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation. When a website is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset.

Consensus

.07 An entity's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of GRAP 31.

.08 A website arising from development should be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in paragraph .23 in GRAP 31 for recognition and initial measurement, an entity can satisfy the requirements in paragraph .52 in GRAP 31. In particular, an entity may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits or service potential in accordance with paragraph .52(d) in GRAP

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

31. This will be the case when the website is capable of generating revenues through the sale of goods, for example, or providing services using the website rather than by providing services face-to-face. If an entity is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website should be recognised as an expense when incurred.

.09 Any internal expenditure on the development and operation of an entity's own website should be accounted for in accordance with GRAP 31. The nature of each activity for which expenditure is incurred (e.g. training employees and maintaining the website) and the website's stage of development or post-development should 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 paragraphs .49 to .51 in GRAP 31. Expenditure incurred in this stage should 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 paragraphs .52 to .62 in GRAP 31. Expenditure incurred in these stages should be included in the cost of a website recognised as an intangible asset in accordance with paragraph .08 when the expenditure can be directly attributed and is necessary to creating, producing or preparing the website for it to be capable of operating in the manner intended by management. In accordance with paragraph .70 in GRAP 31, expenditure on an intangible item that was initially recognised as an expense in previous financial statements should 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 website).

(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, should be recognised as an expense when incurred in accordance with paragraph .67(c) in GRAP 31.

(d) The operating stage begins once development of a website is complete. Expenditure incurred in this stage should be recognised as an expense when it is incurred unless it meets the recognition criteria in paragraph .23 in GRAP 31.

.10 A website that is recognised as an intangible asset under paragraph .08 should be measured after initial recognition by applying the requirements of paragraphs .71 to .87 in GRAP 31. The best estimate of a website's useful life should be short, as described in paragraph .92 in GRAP 31.

Transitional provisions

.11 ***All changes resulting from the application of this Interpretation shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.***

Effective date

Initial adoption of the Interpretation of Standards of GRAP

.12 ***This Interpretation becomes effective with reference to the effective date of the applicable Standards of GRAP as determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.13 ***An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2013. Earlier application is encouraged. If an entity applies this Interpretation for a period beginning before 1 April 2013, it shall disclose that fact.***

Illustrative example

Website costs

This appendix is illustrative only and does not form part of this Interpretation. The purpose of this appendix is to illustrate examples of expenditure that occur during each of the stages described in paragraphs .02 and .03 and illustrative application of this Interpretation. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

Stage/Nature of expenditure	Accounting treatment
Planning ▪ undertaking feasibility studies ▪ defining hardware and software specifications ▪ evaluating alternative products and suppliers ▪ selecting preferences	Recognise as an expense when incurred in accordance with paragraph .49 in GRAP 31.
Application and infrastructure development ▪ purchasing or developing hardware ▪ 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	Apply the requirements of GRAP 17. Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs .23 and .52[3] in GRAP 31.
Graphic design development ▪ designing the appearance (e.g. layout and colour) of web pages	Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs .23 and .52[3] in GRAP 31.

[3] All expenditure on developing a web site solely or primarily for providing information about its own products and service should be recognised as an expense when incurred in accordance with paragraph .66 in GRAP 31.

Stage/Nature of expenditure	Accounting treatment
Content development ▪ creating, purchasing, preparing (e.g. creating links and identifying tags), and uploading information, either text or graphic, on the website before the completion of the website's development. Examples of content include information about an entity, products or services offered, and topics that subscribers access	Recognise as an expense when incurred in accordance with paragraph .67(c) in GRAP 31 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 website to operate in the manner intended by management, and the website meets the recognition criteria in paragraphs .23 and .52[3] in GRAP 31.
Operating ▪ updating graphics and revising content ▪ adding new functions, features and content ▪ registering the website with search engines ▪ backing up data ▪ reviewing security access ▪ analysing usage of the website	Assess whether it meets the definition of an intangible asset and the recognition criteria set out in paragraph .23 in GRAP 31, in which case the expenditure is recognised in the carrying amount of the website asset
Other ▪ selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the website for use to operate in the manner intended by management ▪ clearly identified inefficiencies and initial operating losses incurred before the website achieves planned performance [e.g. false start testing] ▪ training employees to operate the website	Recognise as an expense when incurred in accordance with paragraphs .66 to .70 in GRAP 31.

Comparison with the SIC Interpretation on *Intangible Assets – Web Site Costs* (March 2002)

This Interpretation is drawn primarily from the SIC Interpretation on *Intangible Assets – Web Site Costs* (SIC 32). The main differences between this Interpretation and SIC 32 are as follows:

- This Interpretation uses different terminology, in certain instances, from SIC 32. The most significant examples are the use of the terms "users of a service" and "operations". The equivalent terms in SIC 32 are "customer" and "business" respectively.
- Some of the examples in this Interpretation have been amended to reflect public sector circumstances.
- As GRAP 1 does not incorporate the International Accounting Standards Board improvements on the statement of comprehensive income, this Interpretation has been aligned with the principles in GRAP 1.