

ABSTRACT 29

UITF abstract 29
Website development costs

(Issued 22 February 2001)

The issue

Websites are used for a wide variety of business purposes, including promotion and advertising of products and services; taking orders for products or services; and selling access to information that is contained on the Website. Many companies incur significant costs in developing such Websites. 1

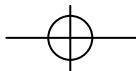
This Abstract addresses the accounting for the development costs of a Website for a company's own use: it does not address the accounting for the costs of developing a Website for another entity. 2

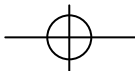
The costs of developing a Website include: 3

- (a) *planning costs*—including, for example, the costs of undertaking feasibility studies, determining the objectives and functionalities of the Website, exploring ways of achieving the desired functionalities, identifying appropriate hardware and Web applications and selecting suppliers and consultants.
- (b) *application and infrastructure development costs*—including the costs of obtaining and registering a domain name and of buying or developing hardware and operating software that relate to the functionality of the site (for example, updateable content management systems and e-commerce systems, including encryption software, and interfaces with other IT systems used by the entity).
- (c) *design costs*—expenditure to develop the design and appearance of individual Website pages, including the creation of graphics.
- (d) *content costs*—expenditure incurred on preparing, accumulating and posting the Website content.

Planning costs do not in themselves give rise to future economic benefits that are controlled by the entity. Such costs should not therefore be capitalised as an asset but should be charged to the profit and loss account as incurred. 4

In contrast, the remaining costs of Website development (paragraph 3(b)-(d)) could give rise to an asset, which should be capitalised if the relationship between the expenditure and the future economic benefits is sufficiently certain. 5





UITF CONSENSUS PRONOUNCEMENTS

6 However, there is often substantial uncertainty regarding the viability, useful economic life and value of a Website. The UITF took the view that, in relation to amounts spent on the design and content of a Website (paragraph 3(c) and (d)), criteria should be established that ensured that the costs would be capitalised only to the extent that they created an enduring asset and there were reasonable grounds for supposing that future economic benefits in excess of the amounts capitalised would be generated by the Website. In the UITF's opinion, this would be the case only if the Website was capable of generating revenues directly, for example by enabling orders to be placed.

7 The UITF considered whether capitalised Website development costs should be regarded as tangible or as intangible fixed assets. It noted that Websites fitted neither classification perfectly. It also noted the statement in paragraph 2 of FRS 10 'Goodwill and Intangible Assets' that:

"Software development costs that are directly attributable to bringing a computer system or other computer-operated machinery into working condition for its intended use within the business are treated as part of the cost of the related hardware rather than as a separate intangible asset."

8 The UITF decided that certain Website development costs were of the type that FRS 10 envisaged should be treated as tangible fixed assets. It took the view that the reference to the capitalisation of software development costs applied irrespective of whether the hardware on which the software ran was owned by the entity. It further decided that, in the interests of consistency and clarity, all Website development costs should be classified in the same way—separating the costs into tangible and intangible components could be difficult and would serve no practical purpose.

9 Website development costs are subject to the capitalisation, depreciation and impairment review requirements set out in FRS 15 and FRS 11 'Impairment of Fixed Assets and Goodwill'. They are not regarded as 'development costs' of the type referred to in companies legislation.*

Application to smaller entities

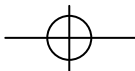
10 Reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt from this Abstract.

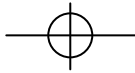
UITF consensus

11 The UITF reached a consensus that:

- (a) Website *planning* costs should be charged to the profit and loss account as incurred.

* In Great Britain, the Companies Act 1985; in Northern Ireland, the Companies (Northern Ireland) Order 1986; and in the Republic of Ireland, the Companies (Amendment) Act 1986.





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- (b) subject to paragraph 12 below, *other Website development costs* should be capitalised as tangible fixed assets, in accordance with the requirements of FRS 15 'Tangible Fixed Assets'.
- (c) expenditure to maintain or operate a Website once it has been developed should be charged to the profit and loss account as incurred, in accordance with the requirements of FRS 15.

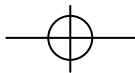
Design and content development costs should be capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. This will be the case only to the extent that 12

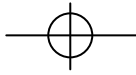
- (a) the expenditure is separately identifiable;
- (b) the technical feasibility and commercial viability of the Website have been assessed with reasonable certainty in the light of factors such as likely market conditions (including competing products), public opinion, and possible legislation;
- (c) the Website will generate sales or other revenues directly* and the expenditure makes an enduring contribution to the development of the revenue-generating capabilities of the Website;
- (d) there is a reasonable expectation that the present value of the future cash flows (ie future revenues less attributable costs) to be generated by the Website will be no less than the amounts capitalised in respect of that revenue-generating activity; and
- (e) adequate resources exist, or are reasonably expected to be available, to enable the Website project to be completed and to meet any consequential need for increased working capital.

If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content should be charged to the profit and loss account as incurred. 13

Revenues that can be regarded as arising directly from the Website could include those attributable to orders placed via the Website, amounts paid by subscribers for access to information contained on the Website or advertising revenues obtained by selling advertising space on the Website. If a Website is used only for advertising or promotion of the entity's own products or services, it is unlikely to be possible to provide sufficient evidence to demonstrate that future sales or revenue will be generated directly by the Website. 14

* For not-for-profit entities, an alternative measure of service potential may be more relevant, in which case paragraphs 12, 14 and 15 should be interpreted as permitting capitalisation only to the extent that the primary purpose of the Website is to provide a means of delivery of the specific services offered by the entity in fulfilment of its principal objectives.





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- 15 It is possible that revenues expected to arise directly from the Website will include some that would have been achieved by other means in the absence of the Website. In such circumstances, it will be necessary to consider whether other fixed assets have become impaired as a result of the development of the Website.
- 16 As required by paragraph 8 of FRS 11 'Impairment of Fixed Assets and Goodwill', capitalised Website development costs should be reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.
- 17 Capitalised Website development costs should be depreciated over their estimated useful economic life, which should be selected and reviewed each period in accordance with the requirements of FRS 15. Given the rapid rate of technological innovation, the useful economic life of a Website is likely to be short. Further, where the design or content of a Website requires more frequent replacement than the Website as a whole, it may be appropriate to select a depreciation period for the cost of the design or content that is shorter than the depreciation period selected for the remainder of the asset.

Date from which effective

- 18 The accounting treatment required by this Abstract should be adopted in financial statements relating to accounting periods ending on or after 23 March 2001, but earlier adoption is encouraged.

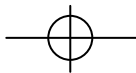
References

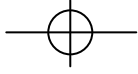
ASB pronouncements

FRS 10 'Goodwill and Intangible Assets' paragraph 2
FRS 11 'Impairment of Fixed Assets and Goodwill' paragraph 8
FRS 15 'Tangible Fixed Assets'

Other pronouncements

EITF (USA) Abstract No. 00-2 'Accounting for Web Site Development Costs'
March 2000





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