
**INTERPRETATION OF
FINANCIAL
REPORTING STANDARD**

INT FRS 32

Intangible Assets—Web Site Costs

This Interpretation is applicable for annual reporting period beginning on
1 January 2023.

INT FRS 32

Interpretation of Financial Reporting Standard 32 *Intangible Assets—Web Site Costs* (INT FRS 32) is set out in paragraphs 7–10. INT FRS 32 is accompanied by an example illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in the *Preface to Financial Reporting Standards*.

FOR THE ILLUSTRATIVE EXAMPLE ACCOMPANYING INT FRS 32, SEE SEPARATE DOCUMENT.

Interpretation of Financial Reporting Standard 32

Intangible Assets—Web Site Costs

References

- FRS 1 *Presentation of Financial Statements* (as revised in 2008)
- FRS 2 *Inventories* (as revised in 2004)
- FRS 16 *Property, Plant and Equipment* (as revised in 2004)
- FRS 36 *Impairment of Assets* (as revised in 2004)
- FRS 38 *Intangible Assets* (as revised in 2004)
- FRS 103 *Business Combinations*
- FRS 115 *Revenue from Contracts with Customers*
- FRS 116 *Leases*

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.
 - (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 FRS 38; and
 - (b) the appropriate accounting treatment of such expenditure.

- 5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under FRS 16. 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 FRS 1.88 and the *Conceptual Framework for Financial Reporting* when the services are received.
- 6 FRS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see FRS 2 and FRS 115) or leases of intangible assets accounted for in accordance with FRS 116. 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 or that is accounted for in accordance with FRS 116.

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 FRS 38.
- 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 FRS 38.21 for recognition and initial measurement, an entity can satisfy the requirements in FRS 38.57. 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 FRS 38.57(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 FRS 38. The nature of each activity for which expenditure is incurred (eg 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 FRS 38.54–.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 FRS 38.57–.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 (eg 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 FRS 38.71, 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 (eg 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 (eg digital

photographs of products), shall be recognised as an expense when incurred in accordance with FRS 38.69(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.

- (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 FRS 38.18.

- 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 FRS 38.72–.87. The best estimate of a web site's useful life should be short.

Effective date

This Interpretation becomes effective on 1 February 2003. The effects of adopting this Interpretation shall be accounted for using the transition requirements in the version of FRS 38 that was issued in 2003. Therefore, when a web site does not meet the criteria for recognition as an intangible asset, but was previously recognised as an asset, the item shall be derecognised at the date when this Interpretation becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, but was not previously recognised as an asset, the intangible asset shall not be recognised at the date when this Interpretation becomes effective. When a web site exists and the expenditure to develop it meets the criteria for recognition as an intangible asset, was previously recognised as an asset and initially measured at cost, the amount initially recognised is deemed to have been properly determined.

FRS 1 (as revised in 2008) amended the terminology used throughout FRSs. In addition it amended paragraph 5. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies FRS 1 (revised 2008) for an earlier period, the amendments shall be applied for that earlier period.

FRS 115 *Revenue from Contracts with Customers*, issued in November 2014, amended the 'References' section and paragraph 6. An entity shall apply that amendment when it applies FRS 115.

FRS 116, issued in June 2016, amended paragraph 6. An entity shall apply that amendment when it applies FRS 116.

Amendments to References to the Conceptual Framework in FRS Standards, issued in 2019, amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by *Amendments to References to the Conceptual Framework in FRS Standards*. An entity shall apply the amendment to INT FRS 32 retrospectively in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendment to INT FRS 32 by reference to paragraphs 23–28, 50–53 and 54F of FRS 8.