

NZ SIC-32 (Diff Rep)



NZ SIC Interpretation 32 (Diff Rep)

Intangible Assets—Web Site Costs (NZ SIC-32 (Diff Rep))

Issued November 2012

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Interpretation are identical to the requirements in NZ SIC-32 *Intangible Assets—Web Site Costs* as applied by qualifying entities. Versions of NZ SIC-32 applied by qualifying entities prior to adoption of this Interpretation are available in the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

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NZ SIC Interpretation 32 (Diff Rep) *Intangible Assets—Web Site Costs* (NZ SIC-32 (Diff Rep)) is set out in paragraphs 7–10.

NZ SIC-32 (Diff Rep) should be read in the context of the Basis for Conclusions on SIC-32 and an example illustrating the application of the Interpretation.

Differential Reporting

Qualifying entities are required to comply with all the provisions in NZ SIC-32 (Diff Rep) except that qualifying entities are permitted to expense all research and development costs in the period they are incurred (refer NZ IAS 38 (Diff Rep)).

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ SIC-32 (Diff Rep) *Intangible Assets—Web Site Costs*

This table lists the pronouncement establishing NZ SIC-32 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ SIC-32 (Diff Rep) <i>Intangible Assets—Web Site Costs</i>	Nov 2012	Early application permitted	1 Dec 2012

The following tables list the pronouncements establishing and substantially amending NZ SIC-32 as applied by qualifying entities prior to the issue of this Interpretation as NZ SIC-32 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ SIC-32 <i>Intangible Assets—Web Site Costs</i>	Nov 2004	1 Jan 2005	1 Jan 2007
<i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i>	June 2005	1 Jan 2005	1 Jan 2007
<i>Amendment to the Framework for Differential Reporting</i>	Dec 2005	1 Jan 2005	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007	Early application permitted	1 Jan 2009

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Table of Amended Paragraphs in NZ SIC-32		
Paragraph affected	How affected	By ...[date]
Paragraph 5	Amended	NZ IAS 1 [Nov 2007]
NZ 18.1	Inserted	Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005]
Effective date	Amended	NZ IAS 1 [Nov 2007]

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References

- NZ IAS 1 (Diff Rep) *Presentation of Financial Statements*
- NZ IAS 2 (Diff Rep) *Inventories*
- NZ IAS 11 (Diff Rep) *Construction Contracts*
- NZ IAS 16 (Diff Rep) *Property, Plant and Equipment*
- NZ IAS 17 (Diff Rep) *Leases*
- NZ IAS 36 (Diff Rep) *Impairment of Assets*
- NZ IAS 38 (Diff Rep) *Intangible Assets*
- NZ IFRS 3 (Diff Rep) *Business Combinations*

NZ SIC-32 (Diff Rep) is identical to NZ SIC-32 applied by qualifying entities prior to the issuance of NZ SIC-32 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ SIC-32 on adoption of this Interpretation.

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.

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- (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 NZ IAS 38 (Diff Rep); 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 NZ IAS 16 (Diff Rep). 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 NZ IAS 1 (Diff Rep).⁸⁸ and the NZ *Framework* (Diff Rep) when the services are received.
- 6 NZ IAS 38 (Diff Rep) does not apply to intangible assets held by an entity for sale in the ordinary course of business (see NZ IAS 2 (Diff Rep) and NZ IAS 11 (Diff Rep)) or leases that fall within the scope of NZ IAS 17 (Diff Rep). 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 NZ IAS 38 (Diff Rep).
- 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 NZ IAS 38 (Diff Rep).²¹ for recognition and initial measurement, an entity can satisfy the requirements in NZ IAS 38 (Diff Rep).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 NZ IAS 38 (Diff Rep).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

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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 NZ IAS 38 (Diff Rep). 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 Appendix to this Interpretation). For example:

- (a) the Planning stage is similar in nature to the research phase in NZ IAS 38 (Diff Rep).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 NZ IAS 38 (Diff Rep).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 NZ IAS 38 (Diff Rep).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 NZ IAS 38 (Diff Rep).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

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it is incurred unless it meets the recognition criteria in NZ IAS 38 (Diff Rep).18.

- 10 A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation should be measured after initial recognition by applying the requirements of NZ IAS 38 (Diff Rep).72–87. The best estimate of a web site’s useful life shall be short.

Basis for Conclusions on SIC-32

11–18 [Paragraphs 11–18 do not form part of NZ SIC-32 (Diff Rep).]

Effective Date

A Tier 3 for-profit entity shall apply this Interpretation for annual periods beginning on or after 1 December 2012. Early application is permitted. This Interpretation replaces NZ SIC-32 as applied by qualifying entities prior to the issuance of this Interpretation. There are no changes to the requirements of NZ SIC-32 as it applied to qualifying entities.

Entities which qualify for differential reporting concessions in accordance with XRB A1 Accounting Standards Framework are required to comply with all the provisions in NZ SIC-32 (Diff Rep) except that qualifying entities are permitted to expense all research and development costs in the period they are incurred (refer NZ IAS 38 (Diff Rep)).

Illustrative example

[This example does not form part of NZ SIC-32 (Diff Rep).]