



NZ ACCOUNTING
STANDARDS
BOARD

New Zealand Equivalent to SIC Interpretation 32

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

Issued November 2004 and incorporates amendments to 31 December 2016 other than consequential amendments resulting from early adoption of NZ IFRS 16 *Leases*

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New Zealand Equivalent to SIC Interpretation 32 *Intangible Assets—Web Site Costs* (NZ SIC-32) is set out in paragraphs 7–10.

NZ SIC-32 should be read in the context of the Basis for Conclusions on SIC-32 and appendix illustrating the application of SIC-32.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ SIC-32.

The following is available within New Zealand on the XRB website as additional material

BASIS FOR CONCLUSIONS ON SIC-32

New Zealand Equivalent to SIC Interpretation 32

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

References

- NZ IFRS 3 *Business Combinations*
- NZ IFRS 15 *Revenue from Contracts with Customers*
- NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- NZ IAS 2 *Inventories*
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 17 *Leases*
- NZ IAS 36 *Impairment of Assets*
- NZ IAS 38 *Intangible Assets*

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 NZ IAS 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 NZ IAS 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 NZ IAS 1.88 and the *NZ Framework* when the services are received.
- 6 NZ IAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see NZ IAS 2 and NZ IFRS 15) or leases that fall within the scope of NZ IAS 17. 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.
- 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 38.21 for recognition and initial measurement, an entity can satisfy the requirements in NZ IAS 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 NZ IAS 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 NZ IAS 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 Appendix to this Interpretation). For example:
- (a) the Planning stage is similar in nature to the research phase in NZ IAS 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 NZ IAS 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 NZ IAS 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 NZ IAS 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 NZ IAS 38.18.
- 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 38.72–87. 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.]

Effective Date

This Interpretation becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Interpretation is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

NZ IAS 1 (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. 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 NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Framework: Tier 1 and Tier 2 For-profit Entities, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

NZ IFRS 15 *Revenue from Contracts with Customers*, issued in July 2014, amended the 'References' section and paragraph 6. An entity shall apply that amendment when it applies NZ IFRS 15.

Illustrative example

[This illustrative example does not form part of NZ SIC-32.]

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ SIC-32 *Intangible Assets—Web Site Costs*

This table lists the pronouncements establishing and substantially amending NZ SIC-32. The table is based on amendments approved as at 31 December 2016 other than consequential amendments resulting from early adoption of NZ IFRS 16 *Leases*.

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
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007	Early application permitted	1 Jan 2009
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> ¹	Nov 2012	Early application permitted	1 Dec 2012
NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	Jul 2014	Early application permitted	1 Jan 2018 ²

Table of Amended Paragraphs in NZ SIC-32		
Paragraph affected	How affected	By ...[date]
References	Amended	NZ IFRS 15 [Jul 2014]
Paragraph 5	Amended	NZ IAS 1 [Nov 2007]
Paragraph 6	Amended	NZ IFRS 15 [Jul 2014]
Effective date	Amended	NZ IAS 1 [Nov 2007]
Effective date	Amended	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]
Effective date	Amended	NZ IFRS 15 [Jul 2014]

¹ This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.

² *Effective date of NZ IFRS 15*, issued in November 2015, deferred the mandatory effective date of NZ IFRS 15 from annual reporting periods beginning on or after 1 January 2017 to annual reporting periods beginning on or after 1 January 2018.