



IMPACT OF IGRAP 16: INTANGIBLE ASSETS (WEBSITE COSTS): ACCOUNTING OF INTERNALLY GENERATED INTANIGLE ASSETS

In the technological age, most public sector entities have incurred material costs for the establishment and upgrading of their websites, which are used to relay service information, to publish performance and financial information for accountability and even used as platforms of service delivery. In the application of accounting requirements of GRAP 31: Intangible Assets, and previously GRAP 102, entities had to consider how to correctly account for these costs incurred.

In 2012, the Accounting Standards Board (ASB) issued an Interpretation of the Standard of GRAP on Intangible Assets (Website Costs) (IGRAP 16) which became applicable from the 2013/14 annual financial year (AFS), to provide clarification to preparers and users of AFS on the accounting considerations pertaining to internally generated intangible assets applicable to website costs.

IGRAP16.08 states that an entity's **own website** (i.e. not for sale or lease) 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: Intangible Assets**. This article sets out a summary of IGRAP 16 and the impact of the implementation thereof on public sector entities applying GRAP in their considerations as whether internally generated website costs should be capitalised or expensed, as to:

<i>Internal access of website</i>	vs	<i>External access of website</i>
<i>Development of website</i>	vs	<i>Operations of website</i>
<i>Own website (held for operations)</i>	vs	<i>Held for sale in normal operations / lease</i>

IGRAP16.08 states that an entity's **own website** (i.e. not for sale or lease –refer to Section 3 below) that **arises from development** (refer to Section 2 below) and is for **internal or external access** (this section) is an **internally generated intangible asset** that is subject to the requirements of GRAP 31: Intangible Assets.

External & Internal access: Use & application	External access: A website designed for external access may be used for various purposes such as to:	Internal access: A website designed for internal access may be used to
	<p>Disseminate information, for example annual reports and budgets, create awareness of services, request comment on draft legislation, etc.</p>	<p>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, etc.</p>

The following sets out IGRAP16.09 - .11 as to the recognition, accounting and subsequent measurement of development of entity's own website:

Website from development recognition requirements (IGRAP16.09)	<p>A website arising from development should be recognised as an intangible asset if, and only if:</p> <p>A. complying with the general requirements described in GRAP 31.23 (IPSAS 31.28) for recognition and initial measurement, i.e.:</p> <ul style="list-style-type: none"> o that intangible assets shall be recognised if it is probable that the expected future economic benefits or service potential of the asset will flow to the entity; and o that the cost or fair value of the asset can be measured reliably; and 	<p>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 GRAP 31.51(d) (see below). 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.</p> <p>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.</p>
	<p>B. the entity can satisfy the requirements in GRAP 31.51 (IPSAS 31.55) pertaining to the development phase of internally generated intangible assets (see next column).</p> <p>If just one of these criteria can't be demonstrated, then the related cost must be expensed.</p>	<p>According to GRAP 31.51 (IPSAS 31.55), an intangible asset arising from development shall be recognised if, and only if, an entity can demonstrate all of the following:</p> <ul style="list-style-type: none"> a) The technical feasibility of completing the intangible asset so that it will be available for use or sale. b) Its intention to complete the intangible asset and use or sell it. c) Its ability to use or sell the intangible asset. d) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset. e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

2. IGRAP 16: website development and operations phases

As per IGRAP 16.01, an entity may incur **internal expenditure** on the **development** and **operation** of its own website for **internal or external access**. IGRAP 16.03 states that once **development** of a website has been **completed**, the **operating stage** begins. The following table sets out the website stages and sub-stages of development and operations. Any internal expenditure on the development and operation of an entity's own website should be accounted for in accordance with the GRAP 31: Intangible Assets. As per IGRAP16.10, the following should be evaluated to determine the appropriate accounting treatment (IGRAP16.10's examples for these evaluations are included below, with additional guidance provided in IGRAP 16 illustrative examples):

- 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.

Phase	Sub-phase	IGRAP16.02 inclusions	IGRAP16.10 evaluation of GRAP31 requirement
Phase 1: Website development	<i>Planning</i>	<ul style="list-style-type: none"> • Undertaking feasibility studies • Defining objectives & specifications • Evaluating alternatives • Selecting preferences 	The planning stage is similar in nature to the research phase in GRAP31.51 to .53. Expenditure incurred in this stage should be recognised as an expense when it is incurred.
	<i>Application and infrastructure development</i>	<ul style="list-style-type: none"> • Obtain a domain name • Purchase / develop hardware & operating software • Installing developed applications • Stress testing 	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 GRAP31.54 to .64.
	<i>Graphical design development</i>	Designing the appearance of web pages	Expenditure incurred in these stages should be included in the cost of a website recognised as an intangible asset in accordance with IGRAP16.09 (above) 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 GRAP31.71, 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).
	<i>Content development</i>	Creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information can be stored in separate databases that are integrated into (or accessed from) the website or coded directly into these pages.	Expenditure incurred in the content development stage: <ul style="list-style-type: none"> • 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 GRAP31.69(c). • to the extent where content is developed for purposes other than to advertise and promote an entity's own products and services, should be included in the cost of a website recognised as an intangible asset in accordance with IGRAP16.09, 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 as per GRAP31.71
Phase 2: Website operation	<i>Maintenance and enhancement</i>	During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.	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 GRAP31.26.

IGRAP16.11 states that a website that is recognised as an intangible asset per IGRAP16.09 (above) should be measured after initial recognition by applying the requirements of GRAP31.73 to .88. The best estimate of a website's useful life should be short, as described in GRAP31.94 in GRAP 31.

3. GRAP 31 and IGRAP 16 Exclusions where the website is not the entity's own website

IGRAP 16.05 and .07 provides for the following exclusions and considerations:

Item	Exclusion	Consideration
IGRAP 16: <i>Expenditure on Purchasing, developing & operating hardware of a website</i>	IGRAP 16 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.
<i>Expenditure on an internet service provider to host the website</i>	When an entity incurs expenditure on an internet service provider hosting the entity's website, it is recognised as an expense.	The expenditure is recognised as an expense under: <ul style="list-style-type: none"> • GRAP 1.93 Presentation of Financial Statements); & • the Framework for Presentation of Financial Statements when the services are received
GRAP 31: <i>Intangible assets held by an entity for sale in the ordinary course of operations or leases</i>	The Standard of GRAP on Intangible Assets (GRAP 31) does not apply to intangible assets: <ul style="list-style-type: none"> • held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts / Inventories) or • leases that fall within the scope of the Standard of GRAP on Leases. 	
IGRAP 16: <i>Expenditure on the development or operation of a website for sale to another entity.</i>	This Interpretation of Standards of GRAP 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: <ul style="list-style-type: none"> • an operating lease, the lessor applies this Interpretation of Standards of GRAP. • a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

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