

## EITF ABSTRACTS

Issue No. 00-2

**Title:** Accounting for Web Site Development Costs

**Dates Discussed:** January 19–20, 2000; March 16, 2000

**References:** FASB Statement No. 61, *Accounting for Title Plant*  
FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*  
FASB Concepts Statement No. 6, *Elements of Financial Statements*  
FASB Highlights, *Computer Software: Guidance on Applying Statement 86*, February 1986  
APB Opinion No. 20, *Accounting Changes*  
AICPA Statement of Position 93-7, *Reporting on Advertising Costs*  
AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*

### ISSUE

1. Companies are incurring significant costs to develop Internet web sites. These companies may be "Internet" companies, traditional "brick and mortar" companies, or service companies. The web sites may be used to promote or advertise products or services, supplant manual processes or services, sell products (including software) or services, or to do a combination of all three. Further, due to rapid changes in technology, new uses for web sites are being developed. Diversity in practice exists in accounting for web site development costs. Some entities capitalize web site development costs, others expense such costs, and still others capitalize some of those costs and expense the rest.
2. The issue is how an entity should account for costs incurred to develop a web site.

### EITF DISCUSSION

3. The Task Force discussed the accounting for web site development costs and reached the following consensuses.

### **Costs Incurred in the Planning Stage**

4. Planning stage activities are described in detail in Exhibit 00-2A. The Task Force reached a consensus that, regardless of whether the web site planning activities specifically relate to software, all costs incurred in the planning stage should be expensed as incurred.

### **Costs Incurred in the Web Site Application and Infrastructure Development Stage**

5. As described in Exhibit 00-2A, the web site application and infrastructure development stage involves acquiring or developing hardware and software to operate the web site. The cost of hardware is outside the scope of this Issue. SOP 98-1 provides guidance for distinguishing between internal-use software and software to be sold, leased, or otherwise marketed. A key aspect of the definition of internal-use software is that it excludes software for which a plan exists or for which a plan is being developed to market the software externally. The Task Force reached a consensus that all costs relating to software used to operate a web site should be accounted for under SOP 98-1 unless a plan exists or is being developed to market the software externally, in which case the costs relating to the software should be accounted for pursuant to Statement 86. Fees incurred for web site hosting, which involve the payment of a specified, periodic fee to an Internet service provider in return for hosting the web site on its server(s) connected to the Internet, generally would be expensed over the period of benefit.

### **Costs Incurred to Develop Graphics**

6. For purposes of this Issue, graphics involve the overall design of the web page (use of borders, background and text colors, fonts, frames, buttons, and so forth) that affect the "look and feel" of the web page and generally remain consistent regardless of changes

made to the content. The Task Force reached a consensus that graphics are a component of software and that the costs of developing initial graphics should be accounted for pursuant to SOP 98-1 for internal-use software, and pursuant to Statement 86 for software marketed externally. Modifications to graphics after a web site is launched should be evaluated to determine whether the modifications represent maintenance or enhancements of the web site. The accounting for maintenance and enhancements is discussed in paragraph 8.

### **Costs Incurred to Develop Content**

7. Content refers to information included on the web site, which may be textual or graphical in nature (although the specific graphics described in paragraph 6, above, are excluded from content). For example, articles, product photos, maps, and stock quotes and charts are all forms of content. Content may reside in separate databases that are integrated into (or accessed from) the web page with software, or it may be coded directly into the web pages. The Task Force observed that the accounting for web site content involves issues that also apply to other forms of content or information that are not unique to web sites. Accordingly, the Task Force concluded that the accounting for content should be addressed as a separate EITF Issue.

### **Costs Incurred in the Operating Stage**

8. As described in Exhibit 00-2A, costs incurred during the operating stage include training, administration, maintenance, and other costs to operate an existing web site. The Task Force reached a consensus that the costs of operating a web site should not be accounted for differently from the costs of other operations; that is, those costs should be expensed as incurred. However, costs incurred in the operation stage that involve

providing additional functions or features to the web site should be accounted for as, in effect, new software. That is, costs of upgrades and enhancements that add functionality should be expensed or capitalized based on the general model of SOP 98-1 (which requires certain costs relating to upgrades and enhancements to be capitalized if it is probable that they will result in added functionality) or, for software that is marketed, Statement 86 (which applies its software capitalization model to "product enhancements," which include improvements that extend the life or significantly improve the marketability of a product). The Task Force observed that the determination of whether a change to web site software results in (a) an upgrade or enhancement, if internal-use software, or (b) a product enhancement, if externally marketed software, is a matter of judgment based on the specific facts and circumstances. The Task Force also observed that SOP 98-1 indicates that entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements must expense such costs as incurred.

### **Transition**

9. The consensuses in this Issue are effective for web site development costs incurred for fiscal quarters beginning after June 30, 2000 (including costs incurred for projects in process as of the beginning of the quarter of adoption of these consensuses). Earlier application is encouraged. The Task Force observed that an entity may elect to adopt the consensuses as a cumulative effect of a change in accounting principles in accordance with Opinion 20.

10. Exhibit 00-2A illustrates the application of the above-described consensuses to specific web site development costs.

## **STATUS**

11. No further EITF discussion is planned.

**Exhibit 00-2A**

**APPLICATION OF THE EITF CONSENSUSES ON ISSUE 00-2**

Web Site Development Activity	Accounting Required by Issue 00-2
<i>Planning Stage</i>	
<p>a. Develop a business, project plan, or both. This may include identification of specific goals for the web site (for example, to provide information, supplant manual processes, conduct e-commerce, and so forth), a competitive analysis, identification of the target audience, creation of time and cost budgets, and estimates of the risks and benefits.</p>	Expense as incurred.
<p>b. Determine the functionalities (for example, order placement, order and shipment tracking, search engine, e-mail, chat rooms, and so forth) of the web site.</p>	Expense as incurred.
<p>c. Identify necessary hardware (for example, the server) and web applications. Web applications are the software needed for the web site's functionalities. Examples of web applications are search engines, interfaces with inventory or other back-end systems, as well as systems for registration and authentication of users, commerce, content management, usage analysis, and so forth.</p>	Expense as incurred.
<p>d. Determine that the technology necessary to achieve the desired functionalities exists. Factors might include, for example, target audience numbers, user traffic patterns, response time expectations, and security requirements.</p>	Expense as incurred.
<p>e. Explore alternatives for achieving functionalities (for example, internal versus external resources, custom-developed versus licensed software, company-owned versus third-party-hosted applications and servers).</p>	Expense as incurred.

<b>Web Site Development Activity</b>	<b>Accounting Required by Issue 00-2</b>
f. Conceptually formulate and/or identify graphics and content (refer to “Graphics and Content Development Stages” for further discussion).	Expense as incurred.
g. Invite vendors to demonstrate how their web applications, hardware, or service will help achieve the web site's functionalities.	Expense as incurred.
h. Select external vendors or consultants.	Expense as incurred.
i. Identify internal resources for work on the web site design and development.	Expense as incurred.
j. Identify software tools and packages required for development purposes.	Expense as incurred.
k. Address legal considerations such as privacy, copyright, trademark, and compliance.	Expense as incurred.
<b><i>Web Site Application and Infrastructure Development Stage</i></b>	The discussion of web site application and infrastructure development assumes that any software is developed for the entity's internal needs and no plan exists or is being developed to market the software externally (refer to paragraph 12 of SOP 98-1). Software for which a plan exists or is being developed to market the software externally is subject to Statement 86, and costs associated with the development of that software should be expensed until technological feasibility is established (refer to paragraph 4 of Statement 86).

Web Site Development Activity	Accounting Required by Issue 00-2
a. Acquire or develop the software tools required for the development work (for example, HTML editor, software to convert existing data to HTML form, graphics software, multimedia software, and so forth).	Apply SOP 98-1. Costs incurred to purchase software tools, or costs incurred during the application development stage for internally developed tools, generally should be capitalized unless they are used in research and development and (1) do not have any alternative future uses or (2) are internally developed and represent a pilot project or are being used in a specific research and development project (see paragraph 18 of SOP 98-1).
b. Obtain and register an Internet domain name.	Generally, capitalize pursuant to paragraph 24 of APB 17.
c. Acquire or develop software necessary for general web site operations, including server operating system software, Internet server software, web browser software, and Internet protocol software.	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.
d. Develop or acquire and customize code for web applications (for example, catalog software, search engines, order processing systems, sales tax calculation software, payment systems, shipment tracking applications or interfaces, e-mail software, and related security features).	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.
e. Develop or acquire and customize database software and software to integrate distributed applications (for example, corporate databases and accounting systems) into web applications.	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.
f. Develop HTML web pages or develop templates and write code to automatically create HTML pages.	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.

<b>Web Site Development Activity</b>	<b>Accounting Required by Issue 00-2</b>
g. Purchase the web and application server(s), Internet connection (bandwidth), routers, staging servers (where preliminary changes to the web site are made in a test environment), and production servers (accessible to customers using the web site). Alternatively, these services may be provided by a third party via a hosting arrangement.	Acquisitions of servers and related hardware infrastructure are outside the scope of this Issue. Payments for hosting arrangements should be expensed over the period of benefit.
h. Install developed applications on the web server(s).	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.
i. Create initial hypertext links to other web sites or to destinations within the web site. Depending on the site, links may be extensive or minimal.	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.
j. Test the web site applications (for example, stress testing).	Apply SOP 98-1. Generally, capitalize pursuant to paragraphs 21 and 31 of SOP 98-1.
<b><i>Graphics and Content Development Stages</i></b>	
a. Create initial graphics for the web site. Graphics include the design or layout of each page (that is, the graphical user interface), color, images, and the overall "look and feel" and "usability" of the web site. Creation of graphics may involve coding of software, either directly or through the use of graphic software tools. The amount of coding depends on the complexity of the graphics.	Apply SOP 98-1. Initial graphics are part of the software and generally should be capitalized pursuant to paragraph 21 of SOP 98-1.
b. Create content or populate databases. Content may be created or acquired to populate databases or web pages. Content may be acquired from unrelated parties or may be internally developed.	To be addressed in a future EITF Issue.

<b>Web Site Development Activity</b>	<b>Accounting Required by Issue 00-2</b>
<p>c. Enter initial content into the web site. Content is text or graphical information (exclusive of graphics described in (a) above) on the web site which may include information on the entity, products offered, information sources that the user subscribes to, and so forth. Content may originate from databases that must be converted to HTML pages or databases that are linked to HTML pages through integration software. Content also may be coded directly into web pages.</p>	<p>Apply SOP 98-1. Paragraph 22 of SOP 98-1 specifies that "data conversion costs" should be expensed as incurred. Similarly, costs to input content into a web site generally should be expensed as incurred. Software used to integrate a database with a web site generally should be capitalized pursuant to paragraph 21 of SOP 98-1.</p>
<p><b><i>Operating Stage</i></b></p>	
<p>a. Train employees involved in support of the web site.</p>	<p>Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.</p>
<p>b. Register the web site with Internet search engines.</p>	<p>Expense as incurred. These expenditures represent advertising costs and are expensed as incurred pursuant to paragraph 26 of SOP 93-7.</p>
<p>c. Perform user administration activities.</p>	<p>Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.</p>
<p>d. Update site graphics (for updates of graphics related to major enhancements, refer to (h), below).</p>	<p>Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.</p>
<p>e. Perform regular backups.</p>	<p>Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.</p>
<p>f. Create new links.</p>	<p>Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.</p>
<p>g. Verify that links are functioning properly and update existing links (that is, link management or maintenance).</p>	<p>Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.</p>

<b>Web Site Development Activity</b>	<b>Accounting Required by Issue 00-2</b>
h. Add additional functionalities or features.	Apply SOP 98-1. Generally, capitalize if they meet the definition of "upgrades and enhancements" in paragraph 24 of SOP 98-1.
i. Perform routine security reviews of the web site and, if applicable, of the third-party host.	Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.
j. Perform usage analysis.	Apply SOP 98-1. Generally, expense as incurred pursuant to paragraph 23 of SOP 98-1.