

Newsletter

Reporting and valuing a website for financial statements

Why include a website in your financial statements:

Often for reporting circumstances many of you who own a company may need to report your website(s) costs on the balance sheet as an asset. Reporting the website is often important too as it will inflate the assets of the company should you ever wish to sell it, and also could help if ever applying for a loan from the bank. It can also mean for reporting purposes that your profits will be higher, as for reporting purposes the costs will be capitalized (added to the asset) rather than expensed. Additionally, often website owners will realize it is beneficial to transfer their website over from their personal holdings to a company holding and therefore may need to value for reporting purposes.

How is a website reported in financial statements:

Knowing how to do this and doing so correctly can be a bit of a problem for some. But never fear, the International Accounting Standards Board (IASB) has a discussion paper on this with regards to the valuation of intangible assets (IAS 38) for financial reporting purposes, specifically related to website costs (SIC-32).

Obviously with regards to websites that are profitable and have a bit of an earnings history the best way is generally to value them using income methods. For example the commonly used discounted cash flow (DCF) method, which values the website today based on predicted future earnings. Additionally, generally a website purchased would be valued at purchase price however according to regulations it may need to be revalued using an aforementioned income method.

The interesting thing about this standard is that it helps in determining how to value for reporting a start up website and which costs should be capitalized (added to the asset value) for reporting purposes. The standard concludes that "a website developed by an enterprise using internal expenditure, whether for internal or external access, is an internally generated intangible asset".

The website stages of development:

It identifies that there are 4 of the following stages in a website's development:

- Planning
- Application and infrastructure development
- Content development
- Operating

The standard addresses how to value for your financial statements these internal expenditures for website development. It is important to note that it should only be valued as an asset if the website will generate probably future economic benefit, for example is capable of generating revenues. Otherwise the costs of development should be expensed.

In relation to the above mentioned stages, what should be capitalized and expensed we discuss below:

- **Planning:** This expenditure should be expensed. So any preliminary research work done into planning the development of the website, such as evaluating suppliers, feasibility, etc cannot be added to the cost of the asset.
- **Application and infrastructure and content development:** This is the graphic design, programming and content development type stage. Expenditure incurred in these stages should be added to the cost of the asset. For example, "expenditure on purchasing or creating content specifically for a website, or expenditure to enable use of the content (such as a fee for acquiring a license to reproduce) on the website, should be included in the cost of development of the asset". It should also be noted that "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"
- **Operating:** Once the development of the website is complete this stage begins. Therefore development is over and this expenditure should be expensed and not added to the asset value.

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How to attribute the values and charge out rates for internal development costs can be difficult but using market rates and other techniques that we source should be acceptable.

Conclusion:

Based on the above discussion it is quite clear that it is internationally accepted that a website can be an intangible asset, and it needs to be determined how to correctly value it for reporting purposes. These standards are particularly useful for valuing a website in the start up phase.

Should you wish to discuss this further or are in need of assistance in determining the value to state your website on your financial statements, such as for transferring a developed or developing website from your personal holdings to an incorporation, or you may be internally developing a site within your company, nEquity would be more than happy to assist.

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We have several highly experienced and well educated and talented staff behind us coming from both finance and IT backgrounds. nEquity staff have extensive experience in the finance world having previously worked at the likes of investment bank Goldman Sachs and for Big 4 accounting firms around the globe.