



CAN I CAPITALISE WEBSITE DEVELOPMENT COSTS UNDER FRS 102?

Issued July 2018
Last Reviewed January 2026

INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service to help ICAEW members to understand the requirements for capitalising website development costs under FRS 102.

This helpsheet includes references to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (September 2024) ('new FRS 102') which is effective for accounting periods beginning on or after 1 January 2026 (except for paragraphs 7.20B and 7.20C which are effective for accounting periods beginning on or after 1 January 2025). This helpsheet also includes references to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (January 2022) ('old FRS 102') which was effective for accounting periods beginning on or after 1 January 2019, or 1 January 2017 for small entities applying Section 1A, following the Triennial review 2017.

Members may also wish to refer to the following related helpsheets:

- [Accounting for intangible assets and goodwill under FRS 102](#)
- [Can I revalue an intangible asset under FRS 102?](#)

OVERVIEW

Under both old and new FRS 102 website development costs are usually considered in the context of intangible assets. An entity will only be able to capitalise website development expenditure as an intangible asset if such expenditure meets the following conditions:

- (a) The development costs meet the definition of an intangible asset;
- (b) The expenditure is **not** on advertising and promotional activities;
- (c) The entity's accounting policy is to capitalise development expenditure; **and**
- (d) The expenditure meets the recognition criteria.

Each of these conditions are explained in more detail below. Although this helpsheet is written in the context of website development costs, similar principles will apply to software development costs too.

DEFINITION OF AN INTANGIBLE ASSET

The glossary to old and new FRS 102 defines an intangible asset as:

‘An identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

(a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

ADVERTISING OR PROMOTIONAL ACTIVITIES

When website development costs have been incurred to set up a website primarily aimed at advertising or promoting an entity’s services, in line with old and new FRS 102 paragraph 18.8C(d), such expenditure should be expensed and not recognised as an intangible asset.

When the website development costs relate to activities other than advertising or promotion, such as e-commerce and order processing systems, it may be possible to capitalise the expenditure if the other conditions are met.

ACCOUNTING POLICY FOR DEVELOPMENT EXPENDITURE

When an entity has made an accounting policy choice to expense development expenditure, the expenditure should be expensed as that policy must be applied consistently in accordance with old and new FRS 102 paragraph 18.8K.

When an entity has elected to adopt an accounting policy of capitalising development expenditure, it may be possible to capitalise the expenditure if the other conditions are met.

RECOGNITION CRITERIA

The final aspect to consider is whether the expenditure meets the recognition criteria:

- a) The expenditure must meet the general recognition criteria contained in old and new FRS 102 paragraph 18.4 which permits recognition as an intangible asset only if it is probable (more likely than not) that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of value of the asset can be measured reliably, **and**
- b) The project is in the development phase, as only expenditure incurred from the point at which the intangible enters the development phase would be capitalised. A project is in the development phase if and only if it meets all the criteria contained within old and new FRS 102 paragraph 18.8H. The entity must be able to demonstrate; the technical feasibility of completing the intangible asset, an intention to complete the intangible asset and use or sell it, an ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset and an ability to reliably measure the expenditure attributable to the intangible asset during its development.

IF IN DOUBT SEEK ADVICE

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