

GN(A) 14 (Issued 2001)

Guidance Note on Accounting by Dot-Com Companies

Foreword

Growth of e-commerce has revolutionised the way of conducting business. The buyers and the sellers are a mere click-of-the-mouse away. In this endeavour, dot-com companies have played a dominant role. The upsurge and recent slump of such companies raised numerous questions about the viability of their business models, particularly, with regard to the accounting practices followed by them. In this scenario, it is but natural that the Institute, being the accounting standards-setting body in the country, should step in to provide authoritative guidance about the accounting treatment of various revenue and expense items peculiar to the dot-com business. Accordingly, the Research Committee of the Institute was entrusted the task of bringing out a pronouncement on the subject.

I congratulate the Research Committee of the Institute for bringing out first a Monograph on the subject and now this Guidance note on Accounting by Dot-Com Companies. I wish to place on record my deep appreciation for Ms. Bhavna Doshi, former Chairperson of Research Committee, for playing the leading role in the preparation of the Monograph and Mr. N. V. Iyer, Chairman, Research Committee, for steering the Guidance Note to its completion in a short span of time. I also acknowledge the contribution made by Dr. Avinash Chander, Technical Director, and Ms. Anuradha Jain, Secretary, Research Committee, for their untiring efforts in this regard.

The Securities and Exchange Board of India is making it mandatory for all listed dot-com companies to follow this Guidance Note. This would lead to adoption of sound accounting practices in a consistent and harmonious manner in the industry. I am sure the issuance of this Guidance Note would also prove to be of immense use to our members in discharging their professional duties.

July 20, 2001
New Delhi.

N. D. Gupta
President

Preface

In recent years, a number of companies, popularly known as dot-com companies, carrying on electronic commerce business, have raised capital in the stock markets of the country. The markets normally value companies based on various types of information including accounting information. As the way of conducting electronic commerce transactions is considerably different from those conducted by the traditional manufacturing, trading and service enterprises, a need was being felt for an authoritative pronouncement which should address significant revenue and expense recognition issues peculiar to electronic commerce business. The Research Committee of the Institute of Chartered Accountants of India decided to issue such a pronouncement and as a result of this endeavour, some time back, brought out a Monograph on Accounting by dot-com companies, basically for the purpose of generating discussion in different quarters. On the basis of the experience gained by the Research Committee on this account, the Committee decided to issue this Guidance Note.

The Guidance Note deals with specific issues relating to electronic commerce and includes accounting issues arising from various revenue and cost items such as membership and subscription fees, revenue from auctions, multiple element arrangements and advertising, and treatment of website development costs, costs of point and loyalty programmes, etc.

I would like to place on record my sincere appreciation of the valuable inputs provided by the SEBI Sub-Committee of the Accounting Standards Committee on Accounting and Disclosure Norms and various experts including Shri Mohandas Pai and Shri Sumanth Cidambi, Chartered Accountants, associated with the preparation of the Guidance Note. I am also grateful to all others for their contributions in giving this Guidance Note its final shape and form through their incisive comments.

I am confident that the Guidance Note will be of immense use to the members in industry as well as those in practice.

July 19, 2001
New Delhi

N. V. Iyer
Chairman
Research Committee

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Guidance Note on Accounting by Dot-Com Companies

(The following is the text of the Guidance Note on Accounting by Dot-Com Companies, issued by the Institute of Chartered Accountants of India. With the issuance of this Guidance Note, the Monograph on Accounting by Dot-Com Companies, issued by the Research Committee of the Institute of Chartered Accountants of India in February 2001, stands withdrawn.)

Introduction

1. This Guidance Note deals with accounting by dot-com companies and other entities engaged in electronic commerce (e-commerce) in respect of certain issues relating to revenue and expense recognition.
2. Some of the accounting issues in dot-com companies have arisen due to the new business models being used in such companies. Some accounting issues, such as those relating to advertising partnerships, rebates, point and loyalty programmes, which are more common in business carried on by dot-com companies, also exist in other businesses.
3. For the purpose of this Guidance Note, dot-com companies include on-line content and Internet commerce companies.

On-line content companies

4. On-line content companies focus on the content sites, i.e., the Internet sites that provide news, information and knowledge as their main business. These include companies that provide Internet navigation services and reference guide information for World Wide Web and that publish, provide or present proprietary, advertising, and/or third party content. Examples of content sites include askjeeves.com, infoseek.co.za, indiainfonline.com, yahoo.com, thestreet.com, etc.

Internet commerce companies

5. Internet commerce companies sell products and services over the websites on the Internet and include on-line dealers. On the basis of the

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types of transactions carried on by such companies, the sites are typically classified into Business-to-Business (B2B), Business-to-Consumer (B2C), Consumer-to-Consumer (C2C) and Consumer-to-Business (C2B), sites.

6. B2B sites link different businesses or different parts of a business. Transactions on these sites take place between industrial manufacturers, wholesalers or retailers. Special features of these transactions are high volumes per customer, lesser number of customers, secured payment systems, privacy of information, etc. Examples of sites in this category are indiaconstruction.com, clickforsteel.com and seekandsource.com.

7. B2C sites sell products or services directly to consumers. A large number of dot-com companies fall in this category. Transactions on these websites are characterised by low volumes per consumer and a large number of consumers. Examples of sites in this category are rediff.com, jaldi.com, indiatimes.com, zipahead.com, and fabmart.com.

8. C2C sites enable consumers to buy and sell from each other through auction or other similar sites. Examples of sites in this category are bazeecom.com and bidorbuy.com.

9. C2B sites enable consumers to set prices and business enterprises bid to offer products and services. Examples of sites in this category are razorfinish.com and priceline.com.

Elements of e-commerce transaction

10. In an e-commerce transaction, all the traditional elements of commerce exist though with some differences. The following elements are ordinarily present in an e-commerce transaction:

- A product or service;
- a place, namely, a website, that displays the products/services and where a business transaction takes place;
- a way for the people to visit the place (website);
- a way to accept orders, e.g., an on-line form;
- a way to accept money – normally through credit cards. Alternatively, the companies may use more traditional billing techniques either on-line or through the mail;

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- a facility to ship products to customers (often, outsourced). In the case of software and information, the product can be transferred over the Web through a file download mechanism;
- a way to accept rejected/returned goods and services;
- a way to handle warrantee claims, if necessary; and
- a way to provide customer service [often through e-mail, on-line forms, on-line knowledge bases and frequently asked questions (FAQs)].

11. Apart from the above elements of e-commerce transactions, certain facilities are also provided on the website, for example, information of the exact status of an order may be provided to the customer.

Scope

12. Dot-com companies engaged in transactions that are similar to transactions entered into by other businesses should follow generally accepted accounting principles for recording those transactions. Similarly, in case of companies normally carrying on other businesses, the recommendations contained in this Guidance Note should be applied for recording e-commerce transactions undertaken by them. The expression 'dot-com companies' includes other entities engaged in e-commerce.

Revenue Recognition

13. The main sources of revenue of dot-com companies presently include:

- Membership and subscription;
- Merchandising activities;
- Advertising services; and
- Other services like web-hosting, content selling, etc.

14. The basic principles of revenue recognition as set out in Accounting Standard (AS) 9, 'Revenue Recognition', apply to recognition of revenue from the above sources. The extracts from AS 9 that are relevant in this context are reproduced below:

“4.1 Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.”

“10. Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.”

“11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and***
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.”***

“12. In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.”

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15. On the basis of the above, accounting principles applicable to specific sources of revenue of dot-com companies are discussed in the following paragraphs.

Membership and subscription

16. In order to avail of the services provided by websites, consumers are usually required to pay an amount as membership fees or subscription. Such membership fee or subscription may also be collected in the form of registration fee. While some services are available to members free of cost after registration, other services may be made available only on payment of an additional fee.

17. The membership/registration fees received by a dot-com company may fall in the following categories:

- Non-refundable fees that entitle a member to use the services of the website by making payment for all services separately;
- Non-refundable fees that entitle a member to use the services of the website indefinitely without making any further payment for use of services;
- Non-refundable fees that entitle a member to use the services of the website for a specified period of time;
- Fees that are refundable subject to the fulfillment of certain conditions stipulated in the subscription agreement. Usually contractual stipulations require such conditions to be fulfilled within a specified time period; and
- Periodic membership/subscription fees on monthly, quarterly, annual or such other basis.

18. Recognition of non-refundable fees as revenue on receipt of fees would not be appropriate in instances where the products delivered or services performed do not represent the culmination of the revenue earnings process. Typically, registering members, signing the contract, enrolling the customer or activating services are not discrete revenue earning events. Revenue earning process is completed by performance of specified actions as per the terms of the arrangements, not simply by originating a revenue-generating arrangement.

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19. Supply of products or rendering of services by dot-com companies may involve charge of a non-refundable upfront fee/initial (membership/registration) fee with or without subsequent payments for products or services to be provided in future. In those cases where all products or services are to be separately paid for apart from the initial membership fee, the initial membership fee is of the nature of an entrance fee which should be capitalised and revenue from rendering of services or supply of products should be recognised on the basis specified in this regard in AS 9.

20. With regard to non-refundable fees that entitle a member to use the services of the website indefinitely without making any further payment for use of services, the initial fee, in substance, represents wholly or partly an advance payment for products or services to be provided in future. This implies that it is expected that the services would be provided on a continuous basis after payment of up-front fee. The non-refundable up-front fee and the continuing performance obligation related to the services to be provided or products to be delivered form an integrated package. Accordingly, up-front membership fees, even if non-refundable, are actually earned as the products and/or services are delivered and/or rendered over the term of the arrangement or the expected period of performance. Consequently, recognition of such non-refundable fees should be generally deferred and the same should be recognised systematically over the period(s) during which fees are earned. However, keeping in view the uncertain nature of business of a dot-com company, non-refundable fees that entitle a member to use the services of the website indefinitely should be recognised as revenue over a period of not less than five years, on a systematic and rational basis, i.e., on time proportion basis or any other basis, e.g., usage basis, whichever is more representative of the services rendered. In case the company also provides services for periodic subscription, the revenue in respect of non-refundable fees to be recognised on the aforesaid basis should not exceed the corresponding periodic subscription.

21. Non-refundable fees that entitle a member to use the services of the website for a specified period of time in excess of five years should be recognised as revenue as recommended in paragraph 20 above. However, in case the specified period is less than five years, the fees should be recognised as revenue on a systematic and rational basis usually on a time proportion basis over the specified period unless another systematic and rational basis is more representative of the services rendered, e.g., the usage basis.

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22. In respect of membership fees that are refundable to members subject to fulfillment of certain conditions (for example, a stipulated volume of usage within a specified period, etc.), it is not appropriate to recognise such fees as revenue on receipt thereof since it is expected that a member would ordinarily fulfil the conditions. Accordingly, the revenue from such transactions should be recognised when it becomes reasonably certain that conditions would not be fulfilled. Pending the recognition of revenue as aforesaid, the amounts received from customers should be credited and retained in a liability account such as 'Customers Refundable Fees Account'. The company should periodically review the status of this account to ascertain the extent of fulfillment or otherwise of the conditions.

23. Periodic membership subscriptions paid by members to avail of the services offered by the website should be recognised as revenue over the period of the subscription, in accordance with the established principles of accrual accounting.

Merchandising activities

24. One of the significant issues in accounting by dot-com companies is whether to recognise gross amount of revenues and the related cost of sales or to recognise the revenue on net basis, similar to commission. The significance of this issue is enhanced due to the importance often placed on the revenue being used as the basis for valuation of dot-com companies. The question of gross *versus* net revenue and cost recognition ordinarily arises in connection with dot-com companies that distribute or resell third party products or services. This issue typically arises in the B2C sites.

25. In assessing whether revenue should be reported on gross basis with separate recognition of cost of sales or on net basis, it should be considered whether the dot-com company:

- acts as a principal in the transaction, i.e., it assumes significant risks and rewards of ownership, such as the risk of loss in collection, delivery, or returns; or
- acts as an agent or broker for sale of goods or rendering of services, i.e., does not assume significant risks and rewards of ownership; compensation being commission or fee. In this case, the dot-com company is merely engaged in providing the service of bringing the purchaser and the seller together.

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26. Where a dot-com company acts as a principal in the transaction, i.e., significant risks and rewards of ownership are first acquired by it and then transferred on sale, it is appropriate to recognise revenues and the related costs on a gross basis. If the dot-com company does not do so, i.e., it merely acts as an agent, it would be appropriate to recognise only the service charges as revenue, similar to commission.

Auctions

27. Some dot-com companies host auction sites as part of their on-line activities where users can purchase or sell goods or services. The dot-com company ordinarily earns auction revenues through two sources – up-front (listing) fees and transaction-based fees.

28. Listing fees are the up-front fees that the dot-com company receives at the time a seller registers for a listing to be maintained over a specified period of time. The purchaser is paying for a service that is delivered over time. It is appropriate that listing fees are recognised over the period of the contract or arrangement, provided there are no significant outstanding vendor obligations to be fulfilled and collection of the related receivable is reasonably certain.

29. Transaction fees are for facilitating the transaction and are usually based on a percentage of the revenue earned by the seller from the on-line sale. Such fees should be recognised as revenue by the dot-com company upon completion of the transaction or at the time when no further vendor obligations remain to be performed as per the terms with the vendor.

Shipping and handling

30. Dot-com companies selling products on-line often charge customers for shipping and handling activities. Such charges may or may not be a direct reimbursement of the costs incurred by dot-com companies. Some companies display the charges separately whereas some do not.

31. In determining accounting treatment, it should be examined whether the products sold on-line are invoiced to the customers at a composite rate including shipping and handling charges or whether shipping and handling charges are recovered separately as an absolute amount or as a percentage of the sale value. In the former case, it may be appropriate to include such charges as a component of sales revenue provided a clear distinction cannot be made between the product value and the shipping and handling charge

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component. Where such charges are recovered as an absolute amount or as a percentage of sale value separately, these should not be included in sales revenue but should be recorded separately. Thus, such charges should not be included in computing the value of turnover to be disclosed in the statement of profit and loss. Shipping and handling charges should be recognised separately as an income and the actual cost incurred in respect thereof should be recognised as an expense. However, where these charges are clearly a reimbursement by the buyer of the actual cost incurred by the seller, these should be shown as a deduction from the shipping and handling cost in the statement of profit and loss, if the amount involved is material.

Multiple element arrangements

32. A multiple element arrangement generally exists where a dot-com company agrees to deliver more than one product/ service concurrently and deliver certain additional products/services in future. These additional products/services may include upgrades, enhancements or maintenance services. It is sometimes customary to bundle such products and services for a consolidated price.

33. For accounting purposes, it is appropriate to 'unbundle' the separate elements of the arrangement or contract. For this purpose, company-specific fair values in respect of which objective evidence is available should be used, i.e., what the company would have received had it sold each item/ service separately. Company-specific objective evidence of fair value is determined in respect of transactions with unrelated parties. For example, a dot-com company may agree to host another company's website and also provide web maintenance service for a fixed fee of Rs.15 lakh for a term of one year and six months, respectively. If the dot-com company has evidence that in its recent transactions, it has charged separate fees for web hosting and web maintenance of Rs.12 lakh for one year and Rs.6 lakh for six months, respectively, then revenue in respect of the composite service now being provided should be recognised in the ratio of 2:1, i.e., Rs.10 lakh from web hosting over one year and Rs.5 lakh as revenue from web maintenance services over a period of six months.

34. Unbundling of revenues from multiple element arrangements is not performed where the revenue recognition criteria as well as the periods over which revenues would be recognised are the same for individual elements of the multiple element arrangement.

35. In the absence of availability of sufficient company-specific objective evidence of fair values for the allocation of revenue between various

elements, it would be appropriate to defer recognition of the entire revenue from the contract until (a) sufficient company-specific objective evidence comes into existence, or (b) all elements of the arrangement are delivered, whichever is earlier. In the latter case, the composite amount is recognised as revenue on delivery of all elements of arrangement. Associated costs related to such deferred revenues should also be carried forward until they are capable of being matched against revenues recognised in the financial statements.

Advertising services

36. One of the principal sources of revenue of dot-com companies is from the sale of banner and sponsorship advertisements. Banner advertisements are usually hosted for a short duration. Sponsorship advertising contracts have longer terms than banner advertising contracts and also involve more service integration. High profile promotional sponsorships are typically focused on a particular event, such as sweepstakes and lotteries. Visitors to the website are ordinarily encouraged to complete the transaction by clicking on a hypertext link, also known as 'click-through'.

37. A dot-com company's obligations typically include guarantees of minimum number of impressions or click-throughs. Impressions are the number of times that an advertisement appears in pages viewed by users of the dot-com company's on-line sites. It is appropriate to recognise revenue on the basis of the number of impressions or 'click-throughs' unless another systematic and rational basis of revenue recognition is more representative of the services rendered. This is in line with Appendix to AS 9 which states that for "advertising agencies, media commissions will normally be recognised when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency". To the extent the minimum guaranteed impressions are not met, recognition of the corresponding revenue should be postponed until the guaranteed impression levels are achieved. The advertising revenue should only be recognised when no significant obligations remain at the end of the period and collection of the resulting receivable is reasonably certain.

38. Dot-com companies may enter into agreements whereby they agree to host advertisements for customers, without any minimum guaranteed impressions. For example, a dot-com company may enter into an agreement with another company to host a banner advertisement containing details of products/services offered by that company. In this case, it is appropriate to

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recognise advertising revenue on straight-line basis over the period for which the banner is to be hosted unless another systematic and rational basis of revenue recognition is more representative of the services rendered.

Measurement of consideration in advertising barter transactions

39. Dot-com companies sometimes enter into advertising barter transactions with each other, in which they exchange rights to place advertisements on each others' on-line properties, i.e., websites or web pages. A barter transaction may involve exchange of advertising time for products or services.

40. Revenue from advertising barter transactions should be recognised only when the fair values of similar transactions are readily determinable from the entity's history. It would be appropriate to consider fair values of transactions that have occurred not later than six months preceding the sale of similar advertising to unrelated buyers. This will ensure that the comparable values are current and reflect the best estimate of a price at which a willing buyer and a willing seller would be willing to exchange an item or service in a situation other than a distress sale. If economic circumstances have changed such that prior (but not more than six months old) transactions are not representative of current fair value for the advertising surrendered, then a shorter, more representative period should be used. It is inappropriate to consider cash transactions subsequent to the barter transaction to determine fair value.

41. For determining the fair value of advertising space surrendered for cash to be considered 'similar' to the advertising space being surrendered in the barter transaction, the advertising space surrendered must have been in the same media and within the same advertising vehicle (for example, same publication, same website, or same broadcast channel) as the advertising in the barter transaction. In addition, the characteristics of the advertising space surrendered for cash must be reasonably similar to that being surrendered in the barter transaction with respect to:

- (a) Circulation, exposure, or saturation within an intended market;
- (b) Timing (time of day, day of week, daily/weekly, 24 hours a day/7 days a week, and season of the year);
- (c) Prominence (page on website, section of periodical, location on page, and size of advertisement);

- (d) Demographics of readers, viewers, or customers;
- (e) Duration (length of time for which the advertisement will be displayed).

42. Where, however, reliable estimates of fair value are not available, it may not be appropriate to recognise revenue and the associated costs involved in barter transactions.

Other services

Revenue from maintenance of websites including web hosting

43. Dot-com companies may also earn revenue from hosting websites for their customers, maintenance of the customers' websites or providing such other services. Revenue from these services should be recognised over the period for which the website is to be hosted or maintained provided such services are rendered over the period of the contract on continuous basis unless another systematic and rational basis of revenue recognition is more representative of the services rendered.

Content Selling

44. Some dot-com companies maintain websites which contain text or other material which can be sold as a content for a price. Generally, a downloading facility of such content is available to the purchaser. In such a case, a question arises as to the timing of the recognition of revenue from the sale of the content downloaded by the customer. Applying the general principle of revenue recognition, the content should generally be considered to be sold when it is delivered to the purchaser. Therefore, keeping in view the terms of individual arrangements and the other relevant facts involved, the dot-com company should determine the time at which the delivery of the content is considered to be complete and recognise the corresponding revenue.

Recognition and Measurement of Costs

Accounting for website development costs¹

45. The website development costs of a new company, should be accumu-

¹ Accounting Standard (AS) 26, 'Intangible Assets', would supersede this section from the date, the Standard becomes mandatory.

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lated, along with other costs incurred upto the time the website is thrown open to the users thereof. Such costs include cost incurred in performing the activities relating to planning the website, obtaining and registering an Internet domain name, testing the website applications, creating initial graphics about website, etc. Keeping in view the nature of the dot-com business, particularly the susceptibility to the rapid technological obsolescence, it is recommended that such costs that are accumulated should be amortised on a systematic and rational basis, over a period not exceeding 2 years after the website is thrown open to the users thereof. The costs so accumulated should be shown as deferred revenue expenditure under the head 'Miscellaneous Expenditure'. All costs incurred, including those for development of new websites, after the first website of the company becomes open to the users should be expensed in the period in which they are incurred.

46. A dot-com company would also incur expenditure on certain items that are similar to entities in other businesses, e.g., expenditure incurred in the acquisition or construction of tangible and intangible assets such as land, buildings, computer hardware, software and knowledge-based content. Since the items of the aforesaid nature are not peculiar only to dot-com companies, the treatment thereof should be the same as in the case of other businesses.

47. An illustrative list of activities performed in website development is given in the Appendix to this Guidance Note.

Rebates, discounts and other sales incentives

48. The accounting treatment of rebates, discounts and other sales incentives depends upon their nature. Where a dot-com company offers rebates or introductory offers at heavily reduced prices in order to stimulate sales and generate new customers, the value of such rebates should be reduced from turnover. This treatment is similar to that accorded to trade discounts. Where the rebates, discounts and other sales incentives are specific in relation to a particular customer, these should be shown by way of deduction from the value of the turnover in the statement of profit and loss of the dot-com company. Other forms of rebate or discount, which are general in nature, should be treated as a selling and marketing expense and charged separately in the profit and loss account. Where rebates, discounts and other sales incentives are in kind, an appropriate estimate of the costs thereof should be made and treated in the manner specified above.

Point and loyalty programmes

49. Point and loyalty programmes have varied features and may be structured in different ways. In some cases, a dot-com company may sell points to its business partners, who then issue the same to their customers based on purchases or other actions. For example, a dot-com company may arrange with a book store to issue reward points to the customers of the book store based on the minimum volume of purchases made by the customers. The customers can exchange these points with the dot-com company for use of the dot-com company's website for a specified period of time. In some cases, the dot-com company may itself award the points in order to encourage its members to take actions that will generate payments from business partners to the company.

50. With regard to the costs related to incentives under point and loyalty programmes incurred by a dot-com company, the following accounting treatment should be adopted:

- (i) Where the incentives under a point and loyalty programme are specific in relation to a particular customer, the cost of providing the incentives should be shown by way of deduction from the value of the turnover in the statement of profit and loss of the dot-com company. In respect of incentives in kind, an appropriate estimate of the costs thereof should be made.
- (ii) In respect of incentives under a point and loyalty programme which are general in nature, i.e., they are not related to specific customers, a general provision therefor should be made in the statement of profit and loss of the dot-com company based on an appropriate estimate of the costs itself.

Equity Based Consideration

51. Some dot-com companies use equity-based consideration to fund expenditures as cash is not an available alternative to attract new business relationships, alliances, or supplier agreements.

52. When a product, service or an asset is acquired in exchange of equity shares by a dot-com company, it should be recorded as below:

- (i) Where a value is placed by the parties to the transaction in respect of a product, service or asset acquired in exchange of equity shares and the transaction is between unrelated parties, the said product, service or asset should be recorded at the value so

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placed, since presumably the said value will represent the fair value thereof.

- (ii) Where the value is not placed by the parties to the transaction in respect of the product, or service or asset acquired in exchange of equity shares or the transaction is between the related parties, the product, service or asset should be recorded on the following basis, since in case of transactions between related parties, the value placed may not necessarily represent the relevant fair value:
 - (a) Where fair value of the product, service or asset acquired is available, the product, service or asset should be recorded at the said fair value.
 - (b) Where fair value of the product, or service or asset is not available but the fair value of the equity transferred is available, the product, service or asset should be recorded at the fair value of the equity consideration.

In the above cases, where the value of the products, services or assets acquired is in excess of the face value of the equity shares transferred, the difference should be credited to share premium account.

For the purpose of the above, 'fair value' is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

The related parties are those parties that are considered to be related as per Accounting Standard (AS) 18, 'Related Party Disclosures', issued by the Institute of Chartered Accountants of India.

Disclosure

53. Besides the disclosure of the significant accounting policies as per the requirement of Accounting Standard (AS) 1, 'Disclosure of Accounting Policies', issued by the Institute of Chartered Accountant of India, the bases for arriving at the fair values in respect of the following should be disclosed in the financial statements of a dot-com company:

- (i) Different elements comprising a multiple arrangement.
- (ii) Advertising barter transactions.
- (iii) Equity based consideration.

Appendix

Illustrative List of Activities Performed at Planning Stage

1. Develop a business, project plan, or both. This may include identification of specific goals for the website (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.
2. Determine the functionalities (for example, order placement, order and shipment tracking, search engine, e-mail, chat rooms, and so forth) of the website.
3. Identify necessary hardware (for example, the server) and web applications. Web applications are the software needed for the website'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, content management, usage analysis, and so forth.
4. Determine the technology necessary to achieve the desired functionalities. Factors might include, for example, target audience numbers, user traffic patterns, response time expectations, and security requirements.
5. 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).
6. Conceptually formulate and/or identify graphics and content.
7. Invite vendors to demonstrate how their web applications, hardware, or service will help achieve the website's functionalities.
8. Selection of external vendors for consultants.
9. Identify internal resources for work on the website design and development.

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10. Identify software tools and packages required for development purposes.
11. Address legal considerations such as privacy, copyright, trademark and compliance.

Illustrative List of Activities Performed at Website Development Stage

1. 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).
2. Obtain and register an Internet domain name.
3. Acquire or develop software necessary for general website operations, including server operating system software, Internet server software, web browser software, and Internet protocol software.
4. Develop or acquire and customise code for web applications (for example, catalogue software, search engines, order processing systems, sales tax calculation software, payment systems, shipment tracking applications or interfaces, e-mail software and related security features).
5. Develop or acquire and customise database software to integrate distributed applications (for example, corporate databases, accounting systems) into web applications.
6. Develop HTML web pages or develop templates and write code to automatically create HTML pages.
7. Purchase the web and application server(s), Internet connection (bandwidth), routers, staging servers (where preliminary changes to the website are made in a test environment), and production servers (accessible to customers using the website). Alternatively, these services may be provided by a third party via a hosting arrangement.
8. Install developed applications on the web server(s).
9. Initial creation of hypertext links to other websites or to destinations within the website. Depending on the site, links may be extensive or minimal.
10. Test the website applications (for example, stress testing).

Illustrative List of Activities Performed at Graphics and Content Development Stages

1. Create initial graphics for the website. Graphics include the design or layout of each page (that is, the graphical user interface), colour, images and the overall 'look and feel' and 'usability' of the website. 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.
2. 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.
3. Enter initial content into the website. Content is text or graphical information (exclusive of graphics described in (1) above) on the website 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.