

IFRS Briefing Sheet

IFRIC 18 *Transfers of Assets from Customers*

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This IFRS Briefing Sheet summarises IFRIC 18 *Transfers of Assets from Customers* that was published by the International Accounting Standards Board (IASB or Board) on 29 January 2009.

IFRIC 18 addresses the current divergence in practice that exists among entities in accounting for certain assets received from customers, and is expected to lead to changes in practice in order to enhance consistency.

Key Points and Scope

IFRIC 18 provides guidance on transfers of property, plant and equipment (or cash to acquire it) for entities that receive such contributions from their customers. In some industries, suppliers of goods or services require their customers to contribute an item of property, plant and equipment, or cash to acquire / construct it, in order to connect customers to a network and provide them with access to a supply of goods or services. In addition to the contribution of property, plant and equipment or cash, customers usually are required to pay for the goods or services based on their usage.

For example, Company X constructs a manufacturing plant some distance from the electricity network. To get access to the network X has two options: (1) to construct the

infrastructure (cables, poles etc.) from the plant to the network and to transfer those assets to the electricity supplier; or (2) to request the electricity supplier to construct the infrastructure and to reimburse the electricity supplier for the costs incurred. Once the connection has been established, X will be charged on an ongoing basis for the electricity that it consumes. In this example IFRIC 18 deals with how the electricity supplier should account for the contribution made by X.

Although the utilities industry is illustrated in IFRIC 18 as an industry in which the guidance would apply, the scope of the interpretation is not limited to power and utility companies. Other industries and arrangements that might be affected include telecommunication companies and outsourcing arrangements.

The IFRIC noted that divergence in practice exists in respect of the accounting for the contributed property, plant and equipment by "access providers" (i.e., by the entity receiving the contribution). Some entities recognise the contributed property, plant and equipment at fair value and others recognise it at a cost of nil. Amongst those that record the asset at fair value, some entities recognise the resulting credit as revenue immediately, while others recognise it over the period of the related service or over

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the life of the contributed asset. The interpretation addresses the following issues:

- Should a transferred item of property, plant and equipment be recorded as an asset by the receiving entity?
- If yes, at what amount should the asset be recognised initially?
- If the asset is recorded at fair value on initial recognition, how should the resulting credit be accounted for?
- How should a cash contribution be accounted for?

In some cases, the entity contributing the asset (the transferor) may be different from the entity that will receive access to a supply of goods or services (the customer). For convenience, the interpretation refers to both parties as “the customer”.

The interpretation scopes out government grants as defined by IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, and infrastructure used in service concession arrangements that is in the scope of IFRIC 12 *Service Concession Arrangements*.

Consensus

Fair Value Measurement if Criteria Met

An entity that has received a contribution in the scope of the interpretation recognises this item as an asset if it meets the:

- definition of an asset set out in the *Framework*

- recognition criteria for property, plant and equipment set out in IAS 16 *Property, Plant and Equipment*.

In determining whether the definition of an asset is met, the receiving entity assesses whether it controls that item of property, plant and equipment.

On initial recognition the asset is measured at its fair value.

Revenue Recognition Depends on Performance Obligations

When an asset is recognised (at fair value) by the entity that received the contribution, the corresponding amount will be recognised as revenue. The exact timing of revenue recognition will depend on the facts and circumstances of the particular arrangement.

In some cases the entity receiving the customer contribution may be required only to establish a connection to a network; in other cases it may be required to provide ongoing access to a supply of goods or services, or it may have some other performance obligation. In determining the timing of revenue recognition, the entity needs to consider:

- what performance obligations it has as a result of receiving the customer contribution
- whether these performance obligations should be separated for revenue recognition purposes in accordance with IAS 18 *Revenue*
- when revenue related to each separately identifiable performance obligation should be recognised.

Effective Date and Transition

IFRIC 18 applies *prospectively* to transfers of assets from customers received on or after 1 July 2009; earlier application is permitted provided that the necessary valuations and other information were obtained at the time that those transfers occurred.

Major Changes to IFRIC D24 Customer Contributions

In its redeliberations of the proposals in IFRIC D24, the IFRIC made the following significant changes in response to the comments received:

- The guidance on determining whether an asset should be recognised was simplified.
- Performance obligations arising from the receipt of an asset from the customer and revenue recognition requirements were reconsidered to address a wider range of scenarios in practice. The draft interpretation identified only one service to be delivered in exchange for the receipt of an asset: ongoing access to a supply of goods or services. The final interpretation requires recognising revenue based on facts and circumstances of the arrangement.
- The final interpretation is accompanied by illustrative examples.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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