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February 2009

IAS Plus Update.

Guidance issued on accounting for transfers of assets from customers

On 29 January 2009, International Financial Reporting Interpretations Committee (IFRIC) Interpretation 18 *Transfers of Assets from Customers* was issued to address divergent practice in the accounting by recipients for transfers of property, plant and equipment from 'customers'. The Interpretation concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue*. For many entities with these sorts of arrangements, this Interpretation is likely to result in deferral of revenue recognition or increased amounts being recognised as revenue, depending on the accounting policy previously adopted.

The Interpretation is to be applied prospectively to transfers of assets from customers received on or after 1 July 2009.

Scope

IFRIC 18 applies to all agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

In some cases, the transferor of the asset may not be the entity that will be the recipient of the ongoing supply of goods and/or services. However, for convenience, the Interpretation refers to the entity transferring the asset as the 'customer'.

For example, a developer builds a new office building in which there is an electrical substation that is handed over to the electricity supplier when the building is completed. The electricity supplier will use the substation to distribute electricity to the future occupier of the building. For the purposes of IFRIC 18, the 'customer' making the transfer is the developer, even though the 'customer' who will use the electricity provided through the substation is the future occupier.

IFRIC 18 does not apply to agreements in which the transfer is either:

- a government grant as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*; or
- infrastructure used in a service concession arrangement that is within the scope of IFRIC 12 *Service Concession Arrangements*.

The IFRIC considered, but rejected, extending the scope to transfers of other types of assets (e.g. intangible assets). However, the IFRIC has not prohibited application of IFRIC 18 by analogy to transfers of other types of assets.

The Interpretation does not address the accounting for the transfer by the customer.

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The timing of the recognition of the revenue arising from the transfer will depend on the separately identifiable services included in the agreement.

Consensus

Recognition as an asset

The entity receiving the item of property, plant and equipment recognises it in its statement of financial position when it meets the definition of an asset under the *Framework for the Preparation and Presentation of Financial Statements*. The Interpretation emphasises that the entity must control the asset in order to recognise it, noting that right of ownership may not of itself be sufficient to establish control.

Whether or not the entity controls the transferred property, plant and equipment is based on consideration of all relevant facts and circumstances. For example, the Interpretation notes that although an entity may not have discretion as to the purpose for which the item is used, where it has the ability to decide how the item is operated and maintained and when it is replaced, the entity is likely to conclude that it controls the transferred item.

Measurement of the asset on initial recognition

Where an entity determines that the item of property, plant and equipment qualifies for recognition as an asset, the Interpretation then directs the entity to recognise the asset in accordance with IAS 16 *Property, Plant and Equipment*, and therefore to measure its cost on initial recognition at its fair value.

Recognition of revenue

IFRIC 18 states that the transactions within the scope of the Interpretation are exchanges for dissimilar goods or services and, therefore, they give rise to revenue in accordance with IAS 18. The timing of the recognition of that revenue will depend on what the entity has agreed to supply to the customer in exchange – i.e. on the separately identifiable services included in the agreement.

If only one service is included in the agreement (e.g. connecting to the utility network with ongoing goods or services charged at the same rates as for other customers), the entity recognises revenue when that service is performed in accordance with paragraph 20 of IAS 18. If more than one service is identified, the fair value received is allocated between the services, and the recognition criteria of IAS 18 are then applied to each service individually. If an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

The Interpretation suggests that when a connection to a network is delivered to the customer and represents stand-alone value for that customer, and the fair value of the connection to that network can be measured reliably, the entity would conclude that connecting the customer to a network is a separately identifiable service, and is thus an event for which revenue should be recognised.

Accounting for transfers of cash from customers

When an entity receives a transfer of cash from a customer, it must first determine whether the agreement is within the scope of IFRIC 18. If it is, the analysis as to whether the item transferred is an asset of the entity and, if so, how to account for the credit side of the transaction is performed as above.

Effective date and transition

IFRIC 18 applies prospectively to transfers of assets from customers received on or after 1 July 2009. Retrospective restatement of previous financial statements is not permitted.

The Interpretation may be applied to transfers before 1 July 2009 provided that the information needed to apply the Interpretation to past transfers (including fair value information) was obtained at the time those transfers occurred. Entities are required to disclose the date from which the Interpretation is applied.

Designed and produced by The Creative Studio at Deloitte, London. 29221

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