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1 July 2009

Accounting impact:

Provides guidance on accounting for contributions by customers or third parties and appropriate revenue recognition



International Financial Reporting Bulletin

IFRIC 18 *Transfers of Assets from Customers*

Background

The International Financial Reporting Interpretations Committee (IFRIC) has published IFRIC 18 *Transfers of Assets from Customers*, which clarifies the application of International Financial Reporting Standards (IFRSs) in certain situations where an asset is transferred from a customer, often for no consideration.

IFRIC 18 applies to agreements where an entity - the access provider - receives an asset from a customer or a third party that it then uses to provide access to an ongoing supply of goods or services to a customer or customers. In some cases, the access provider receives cash with the condition that the cash is used to acquire or construct the asset that will provide access.

Such situations occur frequently within industries such as utilities, construction and outsourcing service providers (such as IT service providers). For example, a construction company may be required to construct assets that will be used by a utility company (the access provider) to supply water to houses on a new development. Also, a customer may decide to outsource their IT function and give all the IT assets to the IT service provider (the access provider) so the IT services can be provided to the company.

IFRIC 18 does not apply to agreements where the transfer is a government grant (IAS 20) or infrastructure in a service concession (IFRIC 12).

Requirements

When an entity receives an item of property, plant and equipment from a customer it must assess whether the item qualifies for recognition based on the definition of an asset and the recognition criteria set out in the *Framework for the Presentation and Preparation of Financial Statements*. In particular, the entity should look at who controls the transferred asset. If the entity is able to decide how the asset is operated and maintained and when the asset is replaced this would normally indicate that the entity controls the asset.

If the transferred item qualifies for recognition as an asset, it is recognised as property, plant and equipment and measured at fair value on initial recognition. The resulting credit should be accounted for as revenue since the transfer of the asset is an exchange of dissimilar goods and services, thus being a transaction that generates revenue in accordance with IAS 18.

To determine the appropriate timing for the recognition of this revenue, the entity should assess whether the transferred asset has been exchanged for one or more separately identifiable services. If, for example, the asset was transferred to the entity to connect the customer to the network and there were no further service obligations (such as the service being available to the customer at a lower price, for a period of time, than the price charged to a customer that had not transferred an asset to the entity), this would suggest that the entity had only one service obligation, to connect the customer to the service. Conversely, an asset may be exchanged so the customer receives a lower price (than a customer that had not transferred an asset) for the ongoing service agreement, indicating an ongoing service obligation. Where the asset has been exchanged for one service, then it is accounted for in accordance with paragraph 20 of IAS 18: in other words, revenue is recognised as the service is provided. Where the asset is transferred for more than one service the entity will need to allocate the fair value of the consideration received across each component before applying the revenue recognition criteria to each component of revenue.

An entity that receives a cash contribution first considers whether the cash was received to construct or acquire an asset to connect the customer to the network. Where this is the case, the entity should then assess whether the acquired or constructed asset meets the definition of an asset in accordance with IAS 16. If the recognition criteria are met then the asset will be recorded at cost and revenue should be recognised in accordance with IAS 18 at the amount of cash received from the customer as the services are rendered.

Effect The effective date of the Interpretation is for transfers of assets on or after 1 July 2009. The Interpretation may mean that, in future, entities receiving transfers of assets from third parties measure these assets and the related revenue at a higher value than they previously would have. The interpretation clarifies that an asset transferred from a customer or third party should be recorded at its fair value in accordance with IAS 16, with the resulting credit being recognised as revenue in accordance with IAS 18.

While the Interpretation relates to prospective transfers, entities are permitted to apply this Interpretation from an earlier date where the valuation and other information needed to apply the Interpretation was available at the time the transfer took place. Where the Interpretation is applied early, the entity must disclose the date the Interpretation was applied.

IFRIC 18 has not yet received EU endorsement. As IFRICs are only meant to interpret existing IFRS there should be nothing preventing an entity applying EU adopted IFRS from applying the requirements of an IFRIC prior to endorsement. However, the existence of a transitional provision which runs counter to the general requirement to apply accounting standards retrospectively would, it

appears, need to be endorsed before an entity can make use of that transitional provision. Consequently, entities applying EU endorsed IFRS whose treatment of contributions by customers currently conflict with IFRIC 18's requirements can still apply it before endorsement is obtained, but would need to apply it fully retrospectively rather than prospectively to transactions entered into on or after 1 July 2009.

Amendments to other standard

The interpretation also includes an amendment to IFRS 1 to allow first time adopters to apply the transitional provision in IFRIC 18 to transactions on or after 1 July 2009 if that date is later than the date of transition to IFRS.

Action required

Entities that receive assets, including cash, which are then used to provide access to an ongoing supply of goods or services to a customer should assess the potential accounting differences which would be associated with this interpretation. A review of tax consequences may also be appropriate if adoption will accelerate or delay the recognition of revenue.



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