



International Financial Reporting Bulletin

IFRIC publishes proposed guidance on accounting for customer contributions

16 May 2008

Status: IFRIC Draft Interpretation

Effective date:
N/A

Accounting impact:

Accounting for contributions by customers for those entities that report under IFRSs

Background

The International Financial Reporting Interpretations Committee (IFRIC) has released for public comment a draft Interpretation, IFRIC D24 *Customer Contributions*.

IFRIC D24 states that customer contributions are transactions in which an entity - the access provider - receives an asset 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 which it must use to acquire or construct the asset that will provide access.

Such situations occur frequently within the utilities, construction and telecommunications industries. For example, a construction company may be required to construct assets that will be used by a utility company to supply water to houses on a new development. Also, a customer may be required to construct or finance the construction of an extension to a telecommunications supply network which would supply a particular area.

An overview of the proposed requirements of IFRIC D24

The following table sets out those matters that IFRIC D24 seeks to address along with the proposed accounting requirements.

Matters that IFRIC D24 has sought to clarify	Proposed requirements of IFRIC D24
<p>1. <i>Should a customer contribution be recognised as an asset and, if so, should it be initially recognised at cost or fair value?</i></p>	<p>Does the contribution qualify for recognition as an asset, 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, does the entity control the resource (the asset contributed) and are future economic benefits expected to flow to the entity from that resource?</p> <p>If the resource qualifies for recognition as an asset, it is recognised as property, plant and equipment and measured on initial recognition at fair value.</p>

Matters that IFRIC D24 has sought to clarify	Proposed requirements of IFRIC D24
<p><i>2. How to account for the credit that arises from the recognition of a customer contribution at fair value?</i></p>	<p>The obligation arising from a customer contribution to provide access to a supply of goods or services is recognised in the Statement of Financial Position (Balance Sheet) and measured on initial recognition at the fair value of the contribution received.</p> <p>This obligation is reduced and revenue recognised as access to a supply of goods or services is provided, which is over the period during which the entity has the obligation to continue to provide access to a supply of goods or services using the contributed asset. This period cannot be longer than the useful economic life of the asset, although it may be shorter.</p>
<p><i>3. Does an agreement to provide ongoing services using a contributed asset contain a lease?</i></p>	<p>When an entity has received an asset as a result of a customer contribution, the entity assesses whether the ongoing arrangement to provide access to a supply of goods or services using that asset contains a lease in accordance with IAS 17 and IFRIC 4 (see IFR Bulletin 2007/09).</p> <p>Where an entity determines that such an ongoing arrangement contains a lease then it assesses whether that lease is an operating lease or a finance lease in accordance with IAS 17.</p> <p>Where the ongoing arrangement contains a finance lease from the entity that receives the contributed asset to the customer, the draft interpretation concludes that from the perspective of the overall arrangement as a whole, the entity does not have an asset that it can recognise. Therefore, the contribution is not recognised and neither is the obligation to provide access. This is on the basis that the entity has settled the obligation to provide the customer with access to a supply of goods or services by providing the asset to the customer by way of the finance lease.</p> <p>Where it is determined that the ongoing service arrangement contains an operating lease, then that lease is required to be accounted for in accordance with IAS 17.</p>

Matters that IFRIC D24 has sought to clarify	Proposed requirements of IFRIC D24
<p>4. <i>How to account for a cash contribution?</i></p>	<p>An entity that receives a cash contribution first considers whether the asset that must be acquired or constructed as a result of the receipt of the cash contribution will meet the criteria for recognition as an item of property, plant and equipment of the entity.</p> <p>If it does not, then the entity accounts for the cash contribution as cash proceeds for providing the asset to the customer, using IAS 11 or IAS 18 as applicable.</p> <p>If the asset that is to be acquired or constructed meets the criteria to be recognised as an item of the entity's property, plant and equipment, it is recognised and measured in accordance with IAS 16.</p> <p>In the latter case, where the entity has an obligation to provide access to a supply of goods or services, that obligation shall be measured by reference to the cash contribution received, and accounted for in the manner as described in paragraph 2 above.</p>

Anticipated Effect of IFRIC D24 If adopted, IFRIC D24 will standardise practice and clarify the accounting for the receipt of customer contributions. The practical effects include:

- All access providers will be required to recognise contributed assets and revenue from providing access to a supply of goods or services over the period that access is provided;
- Those access providers that have previously not recognised contributed assets will now recognise increased property, plant and equipment and revenue;
- Those access providers that have previously recognised revenue immediately on the receipt of a contributed asset may now be required to recognise it over a longer period.

It is proposed that the guidance in IFRIC D24 will be applied prospectively.

Action required Entities that receive assets that are then used to provide access to an ongoing supply of goods or services to a customer should consider assessing the potential accounting differences which would be associated with this proposed change. A review of tax consequences may also be appropriate.



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