

IFRS Briefing Sheet

IFRIC Draft Interpretation D24 *Customer Contributions*

January 2008, **Issue 83**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation D24 *Customer Contributions*, which was published on 17 January 2008.

Background and Issue

In some industries, providers of access to goods or services may receive contributions of PPE (or cash to acquire / construct PPE), which is used to provide access to a supply of goods or services to customers.

For example, an entity constructs a manufacturing plant located some distance from the electricity network. In order to get access to the electricity network the entity may:

- construct the infrastructure (cables, poles etc.) from the plant to the network itself and then transfer these assets to the electricity access provider (customer contribution); or
- request the electricity access provider to construct the infrastructure facilities and reimburse it for the costs (cash contribution).

The entity would then be charged for the electricity consumed at the plant based on the usage.

In some cases:

- the access provider and the eventual supplier of the goods or services to the customer may be different parties
- the asset contributor and the customer receiving the goods or services may be different parties.

This draft interpretation proposes guidance on the accounting for contributions to access providers of:

- property, plant and equipment (PPE) that is required to be used to provide access to a supply of goods or services to customers ("customer contributions")
- cash that is required to be used to acquire / construct PPE that in turn is required to be used to provide access to a supply of goods or services to customers ("cash contributions").

A supplement to KPMG's publication IFRS in Brief

The following summary provides an overview of the accounting treatment for customer and cash contributions by the access provider as proposed in the draft interpretation.

Customer Contributions

When an entity receives PPE that is required to be used to provide access to a supply of goods or services to customers, the proposed consensus is that the PPE would be recognised as an asset only if the entity determines that the PPE meets the definition of an asset and also that the related recognition criteria set out in the *Framework* have been met.

The draft interpretation proposes that if the PPE received meets the definition of an asset and the corresponding recognition criteria, then the receiving entity:

- measures the asset at fair value on initial recognition
- recognises the related obligation to provide access to a supply of goods or services as a liability in the statement of financial position at the same amount
- recognises revenue (through reducing the obligation) over a period which is the *shorter* of the:
 - period in which the entity has an obligation to provide the access to the supply of goods or services using the contributed asset; or
 - useful economic life of the asset.

The asset would be measured at fair value because the transaction is considered to be an acquisition in exchange for a non-monetary asset in accordance with IAS 16 *Property, Plant and Equipment*.

Determining Whether the Ongoing Arrangement Contains a Lease

Upon receiving an asset as a result of a customer contribution, an entity would be required to assess whether the ongoing arrangement contains a lease in accordance with IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

The proposed consensus is that if the entity determines that the ongoing arrangement contains a finance lease arrangement, then it would not recognise an asset as the entity is deemed to have settled its obligation under the arrangement by agreeing to return the asset by way of the finance lease.

Cash Contributions

The IFRIC considered that the economic effect of a cash contribution was similar to that of a customer contribution of PPE and that, consequently, their accounting outcome should be similar.

If it is determined that the item of PPE that must be acquired or constructed as a result of receiving the cash contribution *will* meet the asset definition and recognition criteria, then the draft interpretation proposes that the asset be recognised and measured as it is constructed or acquired in accordance with IAS 16.

The accounting treatment of the related obligation to provide access to a supply of goods or services and the recognition of the revenue is the same as that outlined above in *Customer Contributions*.

If it is determined that the item of PPE that must be acquired or constructed as a result of receiving the cash contribution *will not* meet the asset definition and recognition criteria, then the draft interpretation proposes that the cash contribution be accounted for as proceeds for providing the asset to the customer under:

- IAS 11 *Construction Contracts*; or
- IAS 18 *Revenue*, as applicable.

Effective Date and Transition

The draft interpretation proposes an effective date of annual periods beginning on or after three months after a final interpretation is issued.

The draft interpretation proposes that early adoption will be permitted, with disclosure of that fact being required.

The transition rules propose prospective application to contributions received in periods beginning on or after three months after a final interpretation is issued.

Response to the IFRIC

The IFRIC has invited comments on this draft interpretation by 25 April 2008.

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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