

NZ IFRIC 18 (Diff Rep)



NZ IFRIC Interpretation 18 (Diff Rep)

Transfers of Assets from Customers (NZ IFRIC 18 (Diff Rep))

Issued November 2012

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Interpretation are identical to the requirements in NZ IFRIC 18 *Transfers of Assets from Customers* as applied by qualifying entities. Versions of NZ IFRIC 18 applied by qualifying entities prior to adoption of this Interpretation are available in the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

NZ IFRIC 18 (Diff Rep)

COPYRIGHT

© External Reporting Board (“XRB”) 2012

This XRB standard contains International Financial Reporting Standards (“IFRS”) Foundation copyright material. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by the IFRS Foundation. Reproduction of XRB standards outside of New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside New Zealand should be addressed to the IFRS Foundation.

ISBN 978-1-927237-87-8

NZ IFRIC 18 (Diff Rep)

CONTENTS

NZ IFRIC INTERPRETATION 18 (Diff Rep)
TRANSFERS OF ASSETS FROM CUSTOMERS
(NZ IFRIC 18 (Diff Rep))

	<i>Paragraphs</i>
HISTORY OF AMENDMENTS	
REFERENCES	
BACKGROUND	1–3
SCOPE	NZ 3.1–7
ISSUES	8
CONSENSUS	9–21
Is the definition of an asset met?	9–10
How should the transferred item of property, plant and equipment be measured on initial recognition?	11
How should the credit be accounted for?	12–13
Identifying the separately identifiable services	14–17
Revenue recognition	18–20
How should the entity account for a transfer of cash from its customer?	21
EFFECTIVE DATE AND TRANSITION	22–NZ 22.1
IFRIC ILLUSTRATIVE EXAMPLES	
IFRIC BASIS FOR CONCLUSIONS	

NZ IFRIC 18 (Diff Rep)

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 18 (Diff Rep) *Transfers of Assets from Customers*

This table lists the pronouncement establishing NZ IFRIC 18 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRIC 18 (Diff Rep) <i>Transfers of Assets from Customers</i>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IFRIC 18 (Diff Rep)		
Paragraph affected	How affected	By ... [date]
Paragraph NZ 3.1	Inserted	NZ IFRIC 18 (Diff Rep) [Nov 2012]
Paragraph 22	Deleted	NZ IFRIC 18 (Diff Rep) [Nov 2012]
Paragraph NZ 22.1	Inserted	NZ IFRIC 18 (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IFRIC 18 as applied by qualifying entities prior to the issue of this Interpretation as NZ IFRIC 18 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual periods ... on or after ...)
NZ IFRIC 18 <i>Transfers of Assets from Customers</i>	Feb 2009	Early application permitted	1 July 2009 – applies to transfers on or after this date

NZ IFRIC 18 (Diff Rep)

NZ IFRIC Interpretation 18 (Diff Rep) *Transfers of Assets from Customers* (NZ IFRIC 18 (Diff Rep)) is set out in paragraphs 1–NZ 22.1. NZ IFRIC 18 (Diff Rep) is accompanied by IFRIC Illustrative Examples and an IFRIC Basis for Conclusions.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IFRIC 18 (Diff Rep).

NZ IFRIC Interpretation 18 (Diff Rep)

Transfers of Assets from Customers

(NZ IFRIC 18 (Diff Rep))

References

- NZ *Conceptual Framework for Financial Reporting (Diff Rep)*
- NZ IFRS 1 (Diff Rep) *First-time Adoption of NZ IFRS Diff Rep*
- NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 16 (Diff Rep) *Property, Plant and Equipment*
- NZ IAS 18 (Diff Rep) *Revenue*
- NZ IAS 20 (Diff Rep) *Accounting for Government Grants and Disclosure of Government Assistance*
- NZ IFRIC 12 (Diff Rep) *Service Concession Arrangements*

NZ IFRIC 18 (Diff Rep) is identical to NZ IFRIC 18 applied by qualifying entities prior to the issuance of NZ IFRIC 18 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IFRIC 18 on adoption of this Interpretation.

Background

- 1 In the utilities industry, an entity may receive from its customers items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. Alternatively, an entity may receive cash from customers for the acquisition or construction of such items of property, plant and equipment. Typically, customers are required to pay additional amounts for the purchase of goods or services based on usage.
- 2 Transfers of assets from customers may also occur in industries other than utilities. For example, an entity outsourcing its information technology functions may transfer its existing items of property, plant and equipment to the outsourcing provider.
- 3 In some cases, the transferor of the asset may not be the entity that will eventually have ongoing access to the supply of goods or services and will be the recipient of those goods or services. However, for convenience this Interpretation refers to the entity transferring the asset as the customer.

NZ IFRIC 18 (Diff Rep)

Scope

NZ 3.1 This Interpretation applies only to Tier 3 for-profit entities.

- 4 This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers.
- 5 Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer 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.
- 6 This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment 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.
- 7 This Interpretation does not apply to agreements in which the transfer is either a government grant as defined in NZ IAS 20 (Diff Rep) or infrastructure used in a service concession arrangement that is within the scope of NZ IFRIC 12 (Diff Rep).

Issues

- 8 The Interpretation addresses the following issues:
 - (a) Is the definition of an asset met?
 - (b) If the definition of an asset is met, how should the transferred item of property, plant and equipment be measured on initial recognition?
 - (c) If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
 - (d) How should the entity account for a transfer of cash from its customer?

Consensus

Is the definition of an asset met?

- 9 When an entity receives from a customer a transfer of an item of property, plant and equipment, it shall assess whether the transferred item meets the definition of an asset set out in the NZ *Framework* (Diff Rep). Paragraph 49(a) of the

NZ IFRIC 18 (Diff Rep)

NZ *Framework* (Diff Rep)^{*} states that ‘an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.’ In most circumstances, the entity obtains the right of ownership of the transferred item of property, plant and equipment. However, in determining whether an asset exists, the right of ownership is not essential. Therefore, if the customer continues to control the transferred item, the asset definition would not be met despite a transfer of ownership.

- 10 An entity that controls an asset can generally deal with that asset as it pleases. For example, the entity can exchange that asset for other assets, employ it to produce goods or services, charge a price for others to use it, use it to settle liabilities, hold it, or distribute it to owners. The entity that receives from a customer a transfer of an item of property, plant and equipment shall consider all relevant facts and circumstances when assessing control of the transferred item. For example, although the entity must use the transferred item of property, plant and equipment to provide one or more services to the customer, it may have the ability to decide how the transferred item of property, plant and equipment is operated and maintained and when it is replaced. In this case, the entity would normally conclude that it controls the transferred item of property, plant and equipment.

How should the transferred item of property, plant and equipment be measured on initial recognition?

- 11 If the entity concludes that the definition of an asset is met, it shall recognise the transferred asset as an item of property, plant and equipment in accordance with paragraph 7 of NZ IAS 16 (Diff Rep) and measure its cost on initial recognition at its fair value in accordance with paragraph 24 of that Standard.

How should the credit be accounted for?

- 12 The following discussion assumes that the entity receiving an item of property, plant and equipment has concluded that the transferred item should be recognised and measured in accordance with paragraphs 9–11.
- 13 Paragraph 12 of NZ IAS 18 (Diff Rep) states that ‘When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue.’ According to the terms of the agreements within the scope of this Interpretation, a transfer of an item of property, plant and equipment would be an exchange for dissimilar goods or services. Consequently, the entity shall recognise revenue in accordance with NZ IAS 18 (Diff Rep).

* now paragraph 4.4(a) of the NZ *Framework* (Diff Rep)

Identifying the separately identifiable services

- 14 An entity may agree to deliver one or more services in exchange for the transferred item of property, plant and equipment, such as connecting the customer to a network, providing the customer with ongoing access to a supply of goods or services, or both. In accordance with paragraph 13 of NZ IAS 18 (Diff Rep), the entity shall identify the separately identifiable services included in the agreement.
- 15 Features that indicate that connecting the customer to a network is a separately identifiable service include:
- (a) a service connection is delivered to the customer and represents stand-alone value for that customer;
 - (b) the fair value of the service connection can be measured reliably.
- 16 A feature that indicates that providing the customer with ongoing access to a supply of goods or services is a separately identifiable service is that, in the future, the customer making the transfer receives the ongoing access, the goods or services, or both at a price lower than would be charged without the transfer of the item of property, plant and equipment.
- 17 Conversely, a feature that indicates that the obligation to provide the customer with ongoing access to a supply of goods or services arises from the terms of the entity's operating licence or other regulation rather than from the agreement relating to the transfer of an item of property, plant and equipment is that customers that make a transfer pay the same price as those that do not for the ongoing access, or for the goods or services, or for both.

Revenue recognition

- 18 If only one service is identified, the entity shall recognise revenue when the service is performed in accordance with paragraph 20 of NZ IAS 18 (Diff Rep).
- 19 If more than one separately identifiable service is identified, paragraph 13 of NZ IAS 18 (Diff Rep) requires the fair value of the total consideration received or receivable for the agreement to be allocated to each service and the recognition criteria of NZ IAS 18 (Diff Rep) are then applied to each service.
- 20 If an ongoing service is identified as part of the agreement, the period over which revenue shall be 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 shall be recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

How should the entity account for a transfer of cash from its customer?

- 21 When an entity receives a transfer of cash from a customer, it shall assess whether the agreement is within the scope of this Interpretation in accordance with paragraph 6. If it is, the entity shall assess whether the constructed or acquired item of property, plant and equipment meets the definition of an asset in accordance with paragraphs 9 and 10. If the definition of an asset is met, the entity shall recognise the item of property, plant and equipment at its cost in accordance with NZ IAS 16 (Diff Rep) and shall recognise revenue in accordance with paragraphs 13–20 at the amount of cash received from the customer.

Effective date and transition

- 22 [Deleted]

NZ 22.1 A Tier 3 for-profit entity shall apply this Interpretation for annual periods beginning on or after 1 December 2012. Early application is permitted. This Interpretation replaces NZ IFRIC 18 as applied by qualifying entities prior to the issuance of this Interpretation. There are no changes to the requirements of NZ IFRIC 18 as it applied to qualifying entities.

IFRIC Illustrative Examples

[The examples accompany, but are not part of, NZ IFRIC 18 (Diff Rep).]

IFRIC Basis for Conclusions

BC1–BC26 [Paragraphs BC1–BC26 do not form part of NZ IFRIC 18 (Diff Rep).]