



HK(IFRIC) – Int 18 *Transfers of Assets from Customers*

HKICPA Standard Setting Department Staff Summary (May 2009)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. HK(IFRIC)–Int 18 *Transfers of Assets from Customers* requires entities to apply the Interpretation prospectively to transfers of assets from customers received on or after 1 July 2009, the same effective date as IFRIC Interpretation 18 *Transfers of Assets from Customers*. Earlier application is permitted provided the valuations and other information needed to apply to the Interpretation to past transfers were obtained at the time those transfers were made.

Reasons for issuing HK(IFRIC) – Int 18

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing HK(IFRIC)–Int 18 is to maintain international convergence arising from the issuance of IFRIC Interpretation 18 by the International Accounting Standards Board (IASB).

The Interpretation is particularly relevant for the utility sector, which clarifies the requirements of Hong Kong Financial Reporting Standards for 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 (such as a supply of electricity, gas or water).

In some cases, the entity receives cash from a customer which must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

Hong Kong Financial Reporting Standards, in particular the principles in HKAS 18 *Revenue*, have been interpreted differently and HK(IFRIC)-Int 18 is issued to provide additional guidance on the accounting for those transfers of assets from customers. The interpretation clarifies:

- the circumstances in which the definition of an asset is met;

- the recognition of the asset and the measurement of its cost on initial recognition;
- the identification of the separately identifiable services (one or more services in exchange for the transferred asset);
- the recognition of revenue;
- the accounting for transfers of cash from customers.

Scope of HK(IFRIC)–Int 18

- 3 The Interpretation applies to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such items. These assets must then be used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both.
4. HK(IFRIC) – Int 18 does not apply to agreements in which the transfer is either a government grant as defined in HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* or infrastructure used in a service concession arrangement that is within the scope of HK(IFRIC) – Int 12 *Service Concession Arrangements*.

Main features of HK(IFRIC) – Int 18

Circumstances in which the definition of an asset is met

5. 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 *Framework*. Paragraph 49(a) of the *Framework* 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.

Recognition of the asset and the measurement of its cost on initial recognition

6. 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 HKAS 16 and measure its cost on initial recognition at its fair value in accordance with paragraph 24 of that Standard.

Identification of the separately identifiable services (one or more services in exchange for the transferred asset)

7. 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 HKAS 18, the entity shall identify the separately identifiable services included in the agreement.



Recognition of revenue

8. If only one service is identified, the entity shall recognise revenue when the service is performed in accordance with paragraph 20 of HKAS 18.
9. If more than one separately identifiable service is identified, paragraph 13 of HKAS 18 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 HKAS 18 are then applied to each service.
10. 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.

Accounting for transfers of cash from customers

11. 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 HKAS 16 and shall recognise revenue in accordance with paragraphs 13–20 at the amount of cash received from the customer.

Other references on IFRIC 18

1. Deloitte IAS Plus Guidance issued on accounting for transfers of assets from customers
<http://www.iasplus.com/iasplus/0902ifric18.pdf>
2. Ernst & Young “Supplement to IFRS outlook” Transfers of assets from customers
[http://www.ey.com/Global/assets.nsf/International/IFRS_Supplement_to_IFRS_Outlook_Issue_29/\\$file/Supplement_29.pdf](http://www.ey.com/Global/assets.nsf/International/IFRS_Supplement_to_IFRS_Outlook_Issue_29/$file/Supplement_29.pdf)
3. KPMG IFRS Briefing Sheet on IFRIC 18 *Transfers of Assets from Customers*
http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS09124.pdf

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