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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

IFRIC meeting:	**September 2008, London**
Project:	**D24 *Customer Contributions:* Illustrative examples (Agenda Paper 2D)**

Introduction

1. At the July 2007 IFRIC meeting, some IFRIC members pointed out that the example prepared by the staff (a customer contribution for connection to a price-regulated network) was very narrow and asked the staff to develop additional examples with different facts and circumstances.

Staff analysis

2. The staff have developed two examples for discussion:
   - Example 1 carries forward the example of a customer contribution for connection to a price-regulated network and reflects the IFRIC's conclusion reached at the July 2008 meeting in respect of revenue recognition; and
   - Example 2 illustrates the issue of who controls the asset.

Example 1—Customer contributions for connection to a price-regulated network

3. The example is as follows:

A real estate company is building a residential real estate development in an area that is not connected to the electricity network. In order to have access to the electricity network, the real estate company is required to construct an electricity substation that is then contributed to the utility company operating the electricity network. The contributed electricity substation becomes an asset of the utility company that it must maintain or replace at its cost. The utility company uses the contributed asset to connect each house of the residential real estate development to its electricity network. The developer then sells the connected houses to customers at a price that includes a share of the costs of the electricity substation. By law or regulation, the utility company has an obligation to provide on-going access to the electricity network to all connected customers at the same price, regardless of whether they have contributed an asset. Customers can choose to purchase their electricity from suppliers other than the utility company but must use the utility's network to receive it. The electricity supplier charges the customers quarterly for the consumption of electricity and collects an ongoing access fee on behalf of the utility company.

Alternatively, the utility company could construct the substation and receive a cash contribution from the developer that covers all or part of the cost of the substation. The substation remains however an asset of the utility company.

In this example, the ongoing obligation to provide access arises from the terms of the operating licence, not from the contribution (either the substation or the cash consideration). In these circumstances, the ongoing performance obligation is an executory contract and should not be accounted for, unless it is onerous. Connecting the house to the electricity network is the only service provided in exchange for the substation. Hence, revenue should be measured at the fair value of the asset received (the substation) and recognised when the connection to the network is performed.

Example 2— who controls the asset?

4. The example is as follows:

A house builder constructs a house on a brownfield site in a major city. As part of constructing the house, the house builder installs a pipe from the house to the water main in front of the house. The house builder contributes the pipe that runs from the edge of the property to the water main to the water company that provides an on-going water supply to the house. In this case, the house will receive all of the output from that pipe. The house owner will dictate how much water flows through the pipe, and can restrict the water company from using the pipe for any purpose other than supplying the house. Furthermore, no other user can use that pipe. In these circumstances, the house-owner continues to control the use of the pipe. The recognition criteria would not be met for the entity that receives the contributed pipe.

Alternatively, the house is built on a greenfield site some distance from the nearest house. Again, a pipe is built that connects the house to the nearest water main (some distance away in a local town), and this is contributed to the water company. The house is in an area which is being rapidly developed, and future houses will connect to the water pipe. In this case, it is likely that other customers will have access to a significant part of the water pipe's output, so the owner of the first house will not continue to control the use of the pipe. The recognition criteria are likely to be met for the entity that receives the contributed pipe.

Questions for the IFRIC

5. **Do you have any comments on these two examples? Do you think other examples should be provided?**