



ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

ASSETS RECEIVED FROM CUSTOMERS (IGRAP 10)

Acknowledgement

This Interpretation of the Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent IFRIC Interpretation on *Transfer of Assets from Customers* (IFRIC 18) published by the IFRS[®] Interpretations Committee of the International Accounting Standards Board (IASB) in January 2009. The IASB has issued a comprehensive body of IFRS[®] Accounting Standards and IFRIC[®] Interpretations. Extracts of IFRIC 18 are reproduced in this Interpretation of the Standards of GRAP with the permission of the IASB.

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7 Westferry Circus

Canary Wharf

London E14 4HD

United Kingdom

Internet: <http://www.ifrs.org>

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Introduction

This pronouncement is set out in paragraphs .01 to .23. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Interpretation of the Standards of GRAP on Assets Received from Customers

References

- *Framework for the Preparation and Presentation of Financial Statements*²
- GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
- GRAP 9 *Revenue from Exchange Transactions*
- GRAP 17 *Property, Plant and Equipment*
- GRAP 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*
- *Guideline on Accounting for Public-private Partnerships (PPPs)*

Background

- .01 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 goods and services 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.
- .02 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.

Scope

- .03 This Interpretation applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.
- .04 Agreements within the scope of this Interpretation are those 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.
- .05 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

² In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

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.

- .06 This Interpretation does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23), or infrastructure used in a public-private partnership agreement (see the Guideline on *Accounting for Public-private Partnerships*), or assets received in a transfer of functions.

Issues

- .07 This 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 received 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 receipt of cash from its customer?

Consensus

Is the definition of an asset met?

- .08 When an entity receives from a customer an item of property, plant and equipment, it shall assess whether the item meets the definition of an asset set out in the *Framework for the Preparation and Presentation of Financial Statements*². Paragraph .66(a) of the *Framework for the Preparation and Presentation of Financial Statements*² states that “an asset is a resource controlled by the entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity”. In most circumstances, the entity obtains the right of ownership of the received 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 received item, the asset definition would not be met despite a transfer of ownership.
- .09 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 or deliver 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 an item of property, plant and equipment shall consider all relevant facts and circumstances when assessing control of the received item. For example, although the entity must use the received item of property, plant and equipment to provide one or more services to the customer, it may have the ability to decide how the received 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 received item of property, plant and equipment.

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

- .10 If the entity concludes that the definition of an asset is met, it shall recognise the received asset as an item of property, plant and equipment in accordance with paragraph .07 of the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17) and measure its cost on initial recognition at its fair value in accordance with paragraph .29 of that Standard.

How should the credit be accounted for?

- .11 The following discussion assumes that the entity receiving an item of property, plant and equipment has concluded that the received item should be recognised and measured in accordance with paragraphs .08 to .10.
- .12 Paragraph .18 of the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9) 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, the receipt 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 GRAP 9.

Identifying the separately identifiable services

- .13 An entity may agree to deliver one or more services in exchange for the received 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 .19 of GRAP 9, the entity shall identify the separately identifiable services included in the agreement.
- .14 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.
- .15 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 receipt receives the ongoing access, the delivery of goods or services, or both at a price lower than would be charged without the receipt of the item of property, plant and equipment.

- .16 Conversely, a feature that indicates that the obligation to provide the customer with ongoing access to a delivery or 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 receipt 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 delivery or supply of goods or services, or for both.

Revenue recognition

- .17 If only one service is identified, the entity shall recognise revenue when the service is performed in accordance with paragraph .20 of GRAP 9.
- .18 If more than one separately identifiable service is identified, paragraph .19 of GRAP 9 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 GRAP 9 are then applied to each service.
- .19 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 received asset used to provide the ongoing service.

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

- .20 When an entity receives a receipt of cash from a customer, it shall assess whether the agreement is within the scope of this Interpretation in accordance with paragraph .05. 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 .08 and .09. 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 GRAP 17 and shall recognise revenue in accordance with paragraphs .12 to .19 at the amount of cash received from the customer.

Transitional provisions

- .21 *On the initial adoption of this Interpretation, the entity shall adjust the opening balance of the accumulated surplus or deficit for any outstanding liabilities that resulted from the receipt of assets from customers.***

Effective date

Initial adoption of the Standards of GRAP

- .22 *This Interpretation becomes effective with reference to the effective date of the applicable Standards of GRAP as determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***



Entities already applying Standards of GRAP

- .23** *An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2011.*

Appendix - Illustrative examples

This appendix is illustrative only and does not form part of this Interpretation. The purpose of this appendix is to illustrate the application of this Interpretation and to assist in clarifying its meaning.

Example 1

- IE1. A real estate company is building a residential 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 transferred to the municipality responsible for the transmission of electricity. It is assumed in this example that the municipality concludes that the received substation meets the definition of an asset. The municipality then uses the substation to connect each house of the residential development to its electricity network. In this case, it is the homeowners that will eventually use the network to access the supply of electricity, although they did not initially transfer the substation. By regulation, the municipality has an obligation to provide ongoing access to the network to all users of the network at the same price, regardless of whether they transferred an asset. Therefore, users of the network that transfer an asset to the municipality pay the same price for the use of the network as those that do not. Users of the network must use the municipality's network to access the supply of electricity.
- IE2. Alternatively, the municipality could have constructed the substation and received an amount of cash from the real estate company that had to be used only for the construction of the substation. The amount of cash received would not necessarily equal the entire cost of the substation. It is assumed that the substation remains an asset of the municipality.
- IE3. In this example, this Interpretation applies to the municipality that receives the electricity substation from the real estate company. The municipality recognises the substation as an item of property, plant and equipment and measures its cost on initial recognition at its fair value (or at its construction cost in the circumstances described in paragraph IE2.) in accordance with GRAP 17. The fact that users of the network that transfer an asset to the municipality pay the same price for the use of the electricity network as those that do not indicates that the obligation to provide ongoing access to the network is not a separately identifiable service of the transaction. Rather, connecting the house to the network is the only service to be delivered in exchange for the substation. Therefore, the municipality should recognise revenue from the exchange transaction at the fair value of the substation (or at the amount of the cash received from the real estate company in the circumstances described in paragraph IE2.) when the houses are connected to the network in accordance with paragraph .20 of GRAP 9.

Example 2

- IE4. A house builder constructs a house on a redeveloped 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. Because the pipe is on the house's land, the owner of the house can restrict access to the pipe. The owner is also responsible for the maintenance of the pipe. In this example, the facts indicate that the definition of an asset is not met for the municipality.
- IE5. Alternatively, a house builder constructs multiple houses and installs a pipe on the commonly owned or public land to connect the houses to the water main. The house builder transfers ownership of the pipe to the municipality that will be responsible for its maintenance. In this example, the facts indicate that the municipality controls the pipe and should recognise it.

Example 3

- IE6. An entity enters into an agreement with a customer involving the outsourcing of the customer's information technology (IT) functions. As part of the agreement, the customer transfers ownership of its existing IT equipment to the entity. Initially, the entity must use the equipment to provide the service required by the outsourcing agreement. The entity is responsible for maintaining the equipment and for replacing it when the entity decides to do so. The useful life of the equipment is estimated to be three years. The outsourcing agreement requires service to be provided for ten years for a fixed price that is lower than the price the entity would have charged if the IT equipment had not been received.
- IE7. In this example, the facts indicate that the IT equipment is an asset of the entity. Therefore, the entity should recognise the equipment and measure its cost on initial recognition at its fair value in accordance with paragraph .29 of GRAP 17. The fact that the price charged for the service to be provided under the outsourcing agreement is lower than the price the entity would charge without the receipt of the IT equipment indicates that this service is a separately identifiable service included in the agreement. The facts also indicate that it is the only service to be provided in exchange for the receipt of the IT equipment. Therefore, the entity should recognise revenue arising from the exchange transaction when the service is performed, i.e. over the ten-year term of the outsourcing agreement.
- IE8. Alternatively, assume that after the first three years, the price the entity charges under the outsourcing agreement increases to reflect the fact that it will then be replacing the equipment the customer transferred.
- IE9. In this case, the reduced price for the services provided under the outsourcing agreement reflects the useful life of the received equipment. For this reason, the entity should recognise revenue from the exchange transaction over the first three years of the agreement.

Comparison with the IFRIC Interpretation on *Transfer of Assets from Customers* (January 2009)

This Interpretation is drawn primarily from the IFRIC Interpretation on *Transfer of Assets from Customers* (IFRIC 18). The main differences between this Interpretation and IFRIC 18 are as follows:

- The heading and text of IFRIC 18 has been amended to clarify that this Interpretation only applies to exchange transactions. The term “transfer” has been amended to “receipt”, where appropriate.
- The scope of this Interpretation has been further clarified to explain that this Interpretation does not apply to transfers that occurred as part of a non-exchange transaction as defined in GRAP 23.
- This Interpretation uses different terminology, in certain instances, from IFRIC 18. The most significant example is the use of the term “delivery or supply of good and services”. The equivalent terms in IFRIC 18 are “commodities” and “goods and services”.
- The term “service potential” has been incorporated in the equivalent term for “economic benefits” to be public sector specific.
- The transitional provisions included in this Interpretation are different to those included in IFRIC 18.
- Some of the examples in IFRIC 18 have been amended to reflect public sector circumstances.