Recognition and derecognition illustrations

IASB project on Rate-regulated Activities

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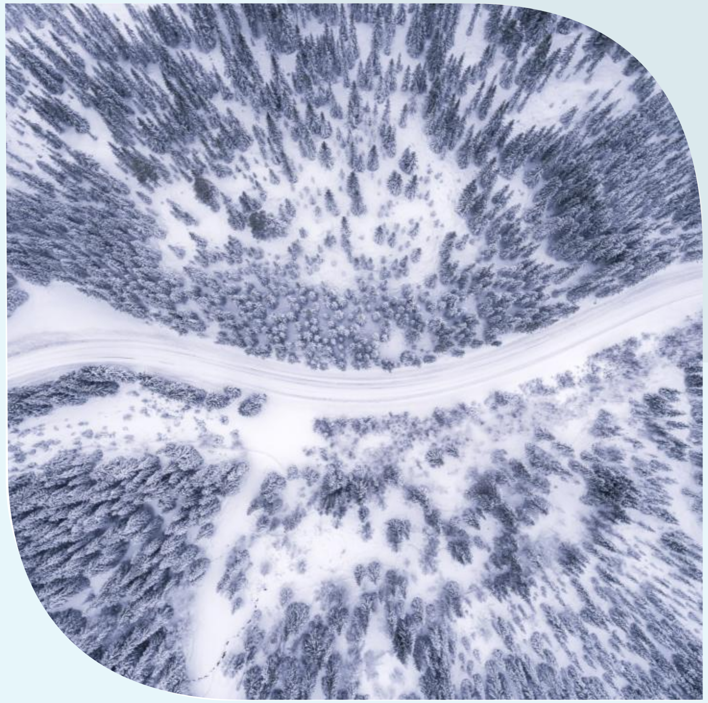
EFRAG
Financial reporting



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OVERVIEW

- Example 1 – Recognition of a regulatory asset
- Example 2 – Recognition of a regulatory liability
- Example 3 – Enforceability of a regulatory asset

EXAMPLE 1 – Recognition of a regulatory asset

Fact pattern

A regulatory agreement entitles an entity to a performance bonus of CU 100 if it meets specified performance criteria. The performance period is 12 months: 9 months in current Y1 and 3 months in Y2. If performance is met, bonus will be added to the regulated rate immediately after the end of the performance period.

Entity's assessment

At the end of Y1, entity concludes that for the incomplete performance period:

- "The most likely amount' will predict better the amount of cash flows arising from the bonus than the 'expected value' method
- The entity assesses that it is 'more likely than not' that the performance criteria will be met and thus it is entitled to a bonus
- The portion of the bonus relating to Y1 is CU75 (9/12 x CU100) - reflects the relative duration
- At end of Y1, the entity recognises as a RA its right to add the bonus of CU 75 to the regulated rates to be charged to customers in future periods

EXAMPLE 2 – Recognition of a regulatory liability

Fact pattern

The fact pattern is the same as in Example 1.

However, if performance is not met, a penalty of CU100 will deducted in determining the regulated rate immediately after the end of the performance period.

Entity's assessment

At the end of Y1, entity concludes that for the incomplete performance period:

- "The most likely amount' will predict better the amount of cash flows arising from the bonus than the 'expected value' method
- The entity assesses that it is 'more likely than not' that the performance criteria will not be met and thus it becomes liable to the penalty
- The portion of the penalty relating to Y1 is CU75 (9/12 x CU100) - reflects the relative duration
- At end of Y1, the entity recognises as a RL its obligation to deduct the penalty of CU 75 when determining the regulated rates to be charged to customers in future periods

EXAMPLE 3 – Enforceability of a regulatory asset

Fact pattern

The regulated rate charged to customers for goods or services provided in the current period Y1 is based on estimated input costs of CU100.

In Y1, the actual input costs for the period were CU120 exceeding this estimate with CU20. The regulatory agreement specifies that an entity has the right to add the under-recovered input costs of CU20 when determining the regulated rates to be charged in future periods.

For political reasons, in order not to increase rates to consumers in subsequent period, the regulator does not authorize the increase in regulated rates resulting from the higher input costs in Y2.

Entity's assessment

At the end of Y1, entity assesses that it has the legal right to enforce the collectability of the higher input costs of CU20 in Y2 and recognises a regulatory asset for this amount.

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