



Solution 124.2

Component	Automotive industry
Index	Tooling – asset and/or revenue
Short title	Tooling (with partial reimbursement) and manufacturing

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety.

Issue

An asset is defined as a resource an entity controls as a result of past events and from which future economic benefits are expected to flow to the entity [F.49(a)].

An asset is recognised in the balance sheet when it is probable that the future economic benefit will flow to the entity and the asset has a cost or value that can be measured with reliability [F.89].

Can a non-financial asset be partially de-recognised?

Background

Entity X is a vehicle manufacturer. Entity X entered into a long term supply arrangement with Y, a supplier. The contract will last for a period of six years. Supplier Y is required to manufacture seats for car type ABC over the contract period to X's specification. The seat is specific for car type ABC, X requires Y to construct tools that will be used to manufacture seats for car type ABC.

The contract to construct the tools will take up to 18 months to complete. Entity X agrees to contribute 30% of Y's cost to construct the tools. The risk and reward of ownership (including the legal ownership) of the tools stays with Y.

The seats are supplied at a reduced cost as a result of the vehicle manufacturer's contribution. They have agreed a fixed price per seat over the contract period. This price (also called "piece price" reimbursement) is expected to cover Y's cost of producing the tools (after allowance for the 30% contribution) based on an indicative production schedule. However, X does not commit to a minimum order of seats that will guarantee Y to recover its costs of producing the tools.

Solution

There is no basis in IFRS for partial derecognition of a fixed asset. The asset is recognised by either X or Y.



Supplier Y records the tools as its fixed assets in this scenario because the significant risk and reward of ownership of the tools remains with Y.

Supplier Y should account for the contribution received from X as deferred income in the balance sheet. It will be recognised as income over the life of the contract as the seats are produced and the tools are depreciated.