Australian Accounting Standards Board

Rejected Issue – Not Taken onto the UIG Agenda

Subscriber Acquisition Costs in the Telecommunications Industry

(June 2006)

The Issue

The issue is how a provider of telecommunications services should account for telephone handsets it provides free of charge or at a reduced price to customers who subscribe to service contracts. The question was whether:

(a) the contracts should be treated as comprising two separately identifiable components, i.e. the sale of a telephone and the rendering of telecommunication services, as discussed in paragraph 13 of AASB 118 *Revenue*. Revenue would be attributed to each component; or

(b) the telephones should be treated as a cost of acquiring the new customer, with no revenue being attributed to them.

In Australia, Urgent Issues Group Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry* (December 2004) addresses the recognition of incremental subscriber acquisition costs as assets. It specifies that subscriber acquisition costs do not include the cost of telephones provided to subscribers: the provision of a telephone to subscribers is accounted for as a sale under AASB 118 *Revenue*, as a separately identifiable component of the transaction.

Reasons for Not Adding the Issue to the UIG's Agenda

The issue was referred to the IFRIC for consideration, given the relevance of the issue to telecommunications entities around the world. The IFRIC acknowledged that the question is of widespread relevance, both across the telecommunications industry and, more generally, in other sectors. The IFRIC noted that IAS 18 *Revenue* does not give guidance on what it means by 'separately identifiable components' and practices diverge.

The IFRIC also noted that the terms of subscriber contracts vary widely and stated that any guidance on accounting for discounted handsets would need to be principles-based to accommodate the diverse range of contract terms that arise in practice. The IASB is at present developing principles for identifying separable components within revenue contracts. In these circumstances, the IFRIC does not believe it could reach a consensus on a timely basis. The IFRIC, therefore, decided not to take the topic onto its agenda.

At its June 2006 meeting, the AASB decided not to add this project to the Urgent Issues Group's agenda on the grounds that the Australian requirements are clearly stated in UIG Interpretation 1042, with the result that divergent practices were not expected in Australia.