

Accounting framework for Service Concession Arrangements

2015

Presentation by : CA Varun Sethi

Contact no: +91 9899766487

Email: varunsethi81@gmail.com

Global Accounting framework for 'Service concession arrangements'

<div>GAAP</div> <div>Reporting entity</div>	Indian GAAP	IFRS	US GAAP
Accounting by Grantor	No standard <i>ASLB still to release a draft of a similar standard.</i>	IPSAS 32 Service Concession Arrangements: Grantor	GAS 60 : Service concession arrangements: Grantor
Accounting by Operator	<ol style="list-style-type: none"> Guidance note on Accounting for SCA Appendix C to IndAS 115 (<i>Applicability still to be notified</i>) 	IFRIC 12: Service concession arrangements	ASC 853: 'Service concession arrangements'

Global Accounting framework

for

'Service concession arrangements'

Sectors and
Industries
impacted

Infrastructure

EPC (Engineering,
procurement, Construction)

Turnkey projects
businesses

Example
Private
Businesses

- *Non Utility generators - Solar Power companies – BHEL, Suzlon*
- *Infrastructure Cos -*
- *Larsen and Toubro, GMR, Reliance Infrastructure*

- Shapoorji Pallonji
- Larsen and toubro
- Infrastructure Cos -
- Larsen and Toubro, GMR
- Fluor Daniels Limited, KBR Inc.

Example :
Government /
Public sector
companies

1. Fluor Daniels Limited
2. KBR Inc.
3. NHAI

CPWD
State Highways authority
NOIDA/ DDA

Accounting framework for 'Service concession arrangements'

IFRIC 12 - Service concession arrangements

<p>IAS 17/IFRIC 4</p> <p>Accounting for Leases – Operating and finance leases – Right to control the use of the asset.</p>	<p>IAS 11 - 'Construction contracts'</p> <p>Accounting for Revenue and costs relating to SCA</p> <ol style="list-style-type: none"> 1. Construction services 2. Upgrade services 	<p>IAS 18 – Revenue</p> <p>Accounting for revenue and costs relating to SCA</p> <ol style="list-style-type: none"> 1. Operator services 	<p>IAS 37 : Provisions, contingent liab. & assets</p> <ol style="list-style-type: none"> 1. Accounting for contractual obligation for replacement and maintenance expenditure 2. Maintain or restore infrastructure (Asset retirement obligations)
IFRS 15 – Revenue from contracts with customers			
<p>IAS 39/IFRS 9: Financial Instruments</p> <p>Accounting for Receivable to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the infrastructure.</p>	<p>IAS 38: Intangible Asset</p> <p>Accounting for Receivable to the extent that it receives a right (a license) to charge users of the public service</p>	<p>IAS 23: Borrowing costs</p> <p>Accounting for financing costs in each case –</p> <ol style="list-style-type: none"> 1. financial asset and 2. Intangible Asset 	<p>IAS 36 : Impairment of assets</p> <p>Impairment of assets – i.e. recoverable value is equal to or higher than the gross carrying amount of the asset</p>

'IFRIC 12 – Service Concession Arrangements'

Key Concepts

IFRIC 12 - Service concession arrangements

Application scope

This IFRIC **applies** to public-to-private service concession arrangements if:

- I. the grantor **controls or regulates what services** the operator must provide with the infrastructure, **to whom** it must provide them, and at **what price**; AND
- II. the grantor controls—through **ownership, beneficial entitlement** or otherwise—any **significant residual interest** in the infrastructure at the end of the term of the arrangement.

Infrastructure used in a public-to-private service concession arrangement for its entire useful life (whole of life assets) is within the scope of this IFRIC if the conditions in 'I' above are met.

'Operator' Accounting under IFRS

Category

Lessee

Operator leases assets from grantor

Service Provider

Service/
O&M
contracts

ROT

BOT

Owner

BOO

100%
divestment/
Privatization

Asset ownership

Grantor

Grantor

Operator

Capital Investment

Grantor

Grantor

Operator

Operator

Demand Risk

Shared

Grantor

Grantor and /or Operator

Operator

Typical duration

8-20 yrs

1-5 years

25-30 yrs

25-30 yrs

Indefinite/
License period

Residual interest

Grantor

Grantor

Operator

Primary IFRS
applicable to
Operator

IAS 17

IAS 18

IFRIC 12

IAS 16

Private

Private

'IFRIC 12 – Service Concession Arrangements'

Practical example I – Financial Asset

IFRIC 12 - Service concession arrangements

Financial Asset

Cash Flow Statement of Sample Toll Road Limited

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Receipts/Collection	0	0	250	250	250	250	250	250	250	250	2000
(-)Contract costs	500	500	20	20	20	20	20	220	20	20	1180
(-) Borrowing costs	0	34	69	61	53	43	34	23	19	7	343
Net Cash Flow	-500	-524	121	129	137	147	156	67	171	183	77

In accordance with **IAS 23**, **borrowing costs** attributable to the arrangement shall be recognized as **an expense** in the period in which they are incurred

Income Statement of Sample Toll Road Limited

Y1

Y2

Y3

Y4

Y5

Y6

Y7

Y8

Y9

Y10

Total

Private

In accordance with IAS 23, borrowing costs attributable to the arrangement shall be recognized as **an expense** in the period in which they are incurred

Debt Cash flows of Sample Toll Road Limited

Y1

Y2

Y3

Y4

Y5

Y6

Y7

Y8

Y9

Y10

Total

Private

IFRIC 12 - Service concession arrangements

Financial Asset

Grantor balance – Amounts due

Y1

Y2

Y3

Y4

Y5

Y6

Y7

Y8

Y9

Y10

Total

Opening Balance

Amounts due in Y

1256

(-) Repayments

2000

*Amount due before
interest*

Interest due/income

344

Closing Balance

Private

'IFRIC 12 – Service Concession Arrangements'

Practical example II – Intangible Asset

IFRIC 12 - Service concession arrangements

Intangible Asset

Cash flow Statement– Sample Toll Road Limited

Cash Flow Statement

	<u>Y1</u>	<u>Y2</u>	<u>Y3</u>	<u>Y4</u>	<u>Y5</u>	<u>Y6</u>	<u>Y7</u>	<u>Y8</u>	<u>Y9</u>	<u>Y10</u>
Receipts			250	250	250	250	250	250	250	250
Contract Costs	-500	-500	-20	-20	-20	-20	-20	-20	-20	-20
Borrowing costs		-34	-69	-61	-53	-43	-34	-23	-19	-7
Net cash flow - used for debt repayment	-500	-534	121	129	137	147	156	67	171	183

IFRIC 12 - Service concession arrangements

Intangible Asset

Income Statement– Sample Toll Road Limited

Income Statement

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Revenue	600	600	250	250	250	250	250	250	250	250
Amortization of intangible asset			-185	-185	-185	-185	-185	-185	-185	-185
Resurface expense	0	0	-12	-14	-15	-17	-20	-22	0	0
Contract costs	-500	-500	-20	-20	-20	-20	-20	-20	-20	-20
Borrowing costs	0	0	-69	-61	-53	-43	-34	-23	-19	-7
Net Income	100	100								

IFRIC 12 - Service concession arrangements

Intangible Asset

Intangible Asset – Sample Toll Road Limited

Intangible Asset

	<u>Y1</u>	<u>Y2</u>	<u>Y3</u>	<u>Y4</u>	<u>Y5</u>	<u>Y6</u>	<u>Y7</u>	<u>Y8</u>	<u>Y9</u>	<u>Y10</u>
Opening balance										
Cost = FV of consideration										
Borrowing costs capitalized										
Less: Amortization										
Closing Balance										

Debt cash flows

	<u>Y1</u>	<u>Y2</u>	<u>Y3</u>	<u>Y4</u>	<u>Y5</u>	<u>Y6</u>	<u>Y7</u>	<u>Y8</u>	<u>Y9</u>	<u>Y10</u>
Debt										
Interest/ Borrowing costs										
Closing balance										
Less: Repaid										
Net debt Outstanding										

Separable and Ancillary unregulated services:

Private

IFRIC 12 - Service concession arrangements

This Appendix **applies** to both:

- I. infrastructure that the **operator constructs or acquires** from a third party for the purpose of the service arrangement; and
- II. **existing infrastructure** to which the grantor gives the operator access for the purpose of the service arrangement.