Accounting framework for Service Concession Arrangements 2015

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Global Accounting framework

for

'Service concession arrangements'

GAAP
Reporting entity

Indian GAAP

IFRS

US GAAP

Accounting by Grantor No standard

ASLB still to release a draft of a similar standard.

IPSAS 32

Service Concession

Arrangements: Grantor

GAS 60:

Service concession arrangements: Grantor

Accounting by Operator 1. Guidance note on

Accounting for SCA

2. Appendix C to IndAS
115 (Applicability still to be notified)

IFRIC 12:

Service concession arrangements

ASC 853:

'Service concession arrangements'

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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

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Accounting framework for 'Service concession arrangements' IFRIC 12 - Service concession arrangements

IFRS 15 - Revenue from contracts with customers

IAS 17/IFRIC 4

IAS 11 'Construction contracts'

IAS 18 – Revenue IAS 37 : Provisions, contingent liab. & assets

Accounting for Leases –
Operating and finance

leases -

Right to control the use of the asset.

Accounting for Revenue and costs relating to SCA

- 1. Construction services
- 2. Upgrade services

Accounting for revenue and costs relating to SCA

Operator services

- Accounting for contractual obligation for replacement and maintenance expenditure
- Maintain or restore infrastructure (Asset retirement obligations)

IAS 39/IFRS 9: Financial Instruments

Accounting for Receivable to the extent that it has an unconditional contractual right to receive cash irrespective of

the usage of the infrastructure.

IAS 38: Intangible Asset

Accounting for Receivable to the extent that it receives

a right (a license) to charge users of the public service

IAS 23: Borrowing costs

Accounting for financing costs in each case –

- 1. financial asset and
- 2. Intangible Asset

IAS 36 : Impairment of assets

Impairment of assets – i.e.
recoverable value is equal to
or higher than the gross
carrying amount of the asset

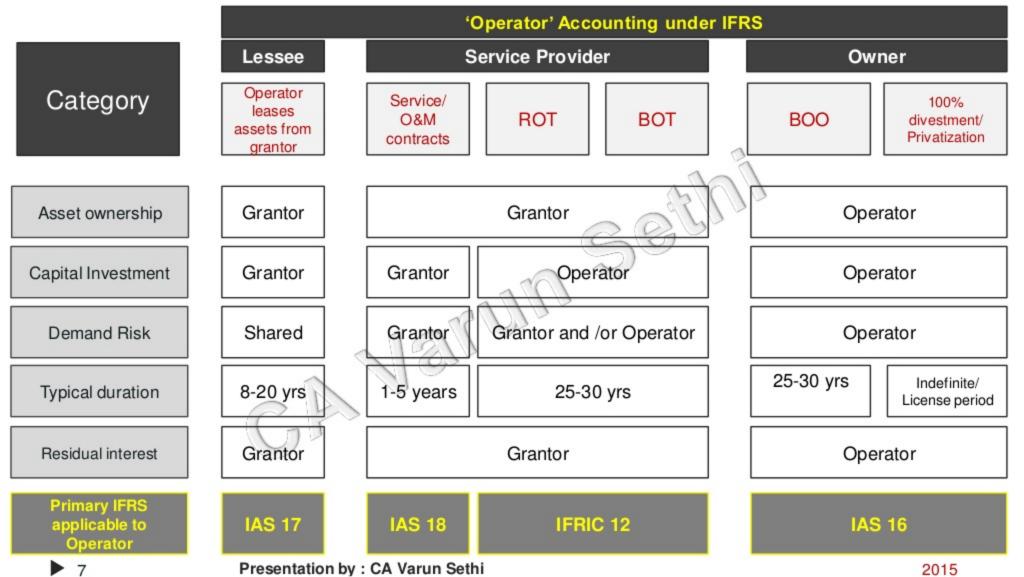
Key Concepts

IFRIC 12 - Service concession arrangements Application scope

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

- 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.



Grantor 'controls or regulates'



'Significant residual interest'



Practical example I – Financial Asset

IFRIC 12 - Service concession arrangements Financial Asset

Cash Flow Statement of Sample Toll Road Limited



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

Financial Asset

Income Statement of Sample Toll Road Limited

Y1 | '

Y2

Y3

Y4

Y5

Y6

Y7

Υ8

Υ9

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

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Financial Asset

Debt Cash flows of Sample Toll Road Limited

Y1

Y2

Y3

Y4

Y5

Y6

Y7

Y8

Y9

Y10

Total



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IFRIC 12 - Service concession arrangements Financial Asset

Grantor balance - Amounts due

Y1 Y2

Y3

J L

Y4

Y5

Y6

Y7

Y8

J١

Y9

Y10

Total

Opening Balance

Amounts due in Y

(-) Repayments

Amount due before interest

Interest due/income

Closing Balance



1256

2000

Practical example II – Intangible Asset

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>	¥7	<u>Y8</u>	<u>Y9</u>	Y10
Receipts			250	250	250	250	250	250	250	250
Contract Costs	-500	-500	-20	-20	C-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

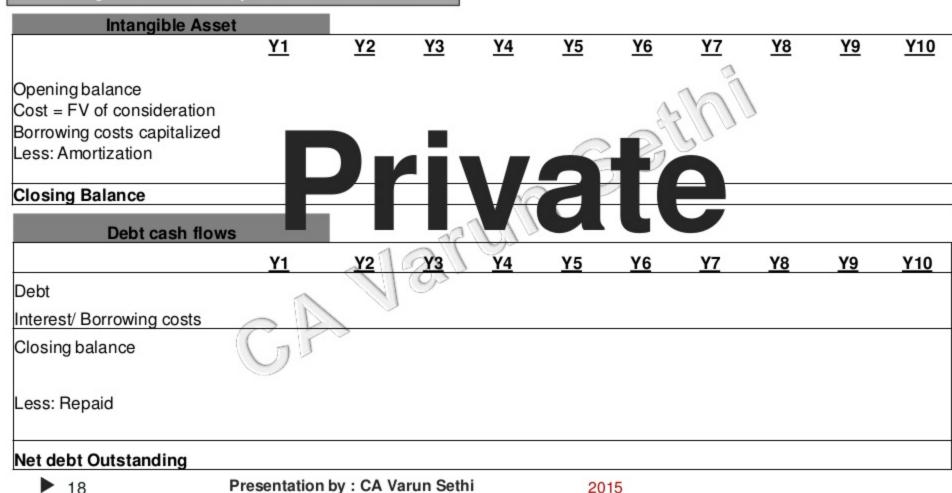
Intangible Asset

Income Statement-Sample Toll Road Limited

Income Statement							4			
	<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>
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	74	15	-17	-20	-22	0	0
Contract costs	-500	-500	7-20	-20	-20	-20	-20	-20	-20	-20
Borrowing costs	0	100	-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



Separable and Ancillary unregulated services:



This Appendix applies to both:

- 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.