APPENDIX C & D TO IND AS 115

SERVICE CONCESSION ARRANGEMENTS

CONTENTS

INTRODUCTION

Service Concession Arrangements

- Infrastructure for public services under :

    - Build-Operate-Transfer Model
    - Rehabilitate-Operate-Transfer Model
    - Public to Private Model

    such as roads, bridges, tunnels, hospitals, airports, water distribution facilities, energy supply etc.

    The service arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity.

INTRODUCTION

Common Features of SCA :

The party that grants the service arrangement (the grantor) is a public sector entity.

The operator is responsible for at least some of the management of the infrastructure and related services.

The contract sets the initial prices to be levied by the operator and regulates price revisions over the period.

The operator is obliged to hand over the infrastructure to the grantor.

→ ***Service Concession Arrangements***

SCOPE

Applicability

This Appendix gives guidance on the accounting by operators for 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
- ✓ the grantor controls through ownership, beneficial entitlement or otherwise and significant residual interest in the infrastructure at the end of the term of the arrangement.

Application Guidance to Appendix C contains various guidance on application of above principles in any particular contract.

SCOPE

Applicability

This Appendix applies to both :

- ✓ Infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement.
- ✓ Existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.

SCOPE

Exclusions

- **This Appendix does not specify the accounting for infrastructure that was held and recognized as property, plant and equipment by the operator before entering the service arrangement. (REFER IND AS 16 for de-recognition accounting)**
- **This Appendix does not specify the accounting by grantors.**

FOCUS OF APPENDIX

COVERAGE OF ACCOUNTING ISSUES

- Treatment of the operator's rights over the infrastructure
- Recognition and measurement of arrangement consideration
- Construction or upgrade services
- Operation services
- Borrowing costs
- Subsequent accounting treatment of a financial asset and an intangible asset
- Items provided to the operator by the grantor

ACCOUNTING PRINCIPLES

Treatment of Operator's Right over the infrastructure:

Infrastructure within the scope of this Standard shall not be recognised as PPE in the operator's books.

Recognition and measurement of arrangement consideration :

Under the terms of contractual arrangements within the scope of this Appendix there may be following performance obligation :

- Construction or upgradation services
- Operation services (for operating and maintaining the infrastructure)

The operator shall recognize and measure revenue in accordance with Ind AS 115 for the services it performs.

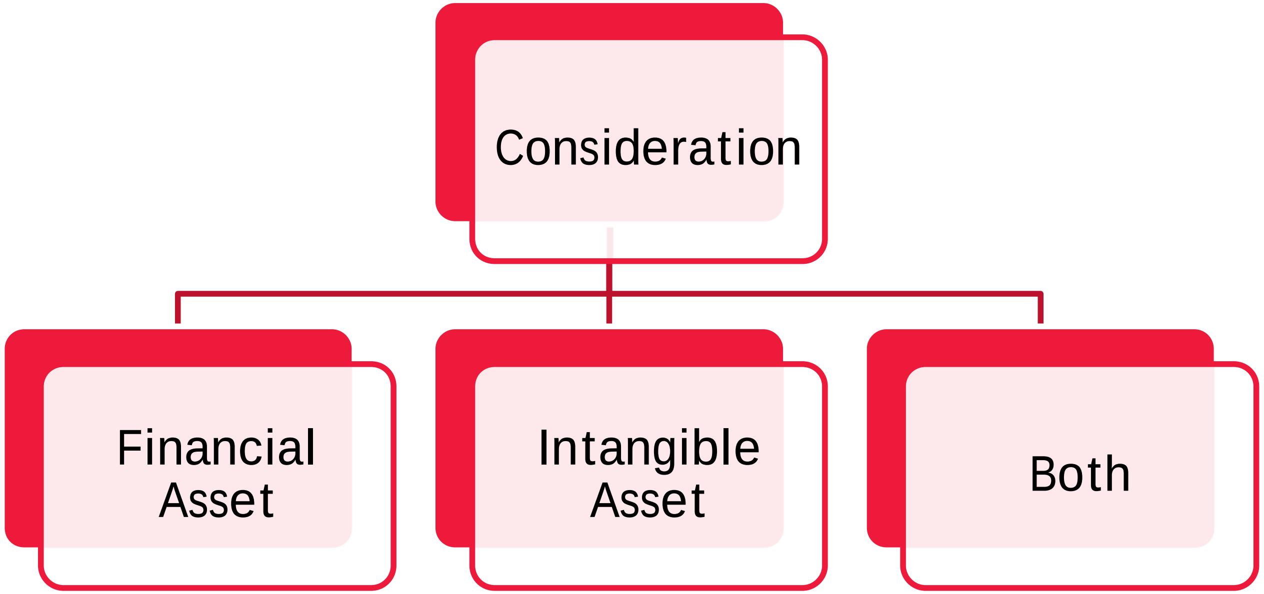
ACCOUNTING PRINCIPLES

Revenue recognition : Five step model

Step 1	Step 2	Step 3	Step 4	Step 5
Identify the contract	Identify separate performance obligations	Determine the transaction price	Allocate the transaction price to performance obligations	Recognise revenue when each performance obligation is satisfied

ACCOUNTING PRINCIPLES

Construction Services



- **The operator shall recognize a “financial asset” to the extent that it has an unconditional contractual right to receive cash or another financial asset from the grantor for the construction services. *(As per IND AS 109)***

- **The operator shall recognize an “intangible asset” to the extent that it receives a right (a license) to charge users of the public service. *(As per Ind AS 36)***

ACCOUNTING PRINCIPLES

Operation Services

The operator shall account for Operation Services revenue in accordance with Ind-AS 115.

ACCOUNTING PRINCIPLES

Borrowing Costs

- To be expensed off in accordance with Ind-AS 23.

- However, if the Operator has Contractual Right to charge users for the use of infrastructure, the borrowing costs to be capitalized during the construction phase.

- In either case, borrowing costs post construction phase to be expensed off to P&L.

ACCOUNTING PRINCIPLES

Example - Financial Asset

A Ltd. is in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power.

The brief details of these business and underlying project details are as follows:

A) Bhilwara-Jabalpur Toll Project - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to 50 crore as on 31st December, 2020. The brief details of the Concession Agreement are as follows :

- Total Expenses estimated to be incurred on the project 100 Crore.
- Fair Value of the construction services is 110 Crore.
- Total Cash Flow guaranteed by the Government under the concession agreement is 200 Crore after 4 year from the completion of construction.
- Finance revenue over the period of operation phase is 15 Crore.
- Other income relates to the services provided during the operation phase.
- Cost incurred by company in operation phase is Rs 1 Crore.

Suggest suitable accounting treatment as per IND AS 115.

ACCOUNTING PRINCIPLES

Solution :

In the above example, the operator has a “contractual right” to receive cash from the grantor as the amount of Rs 200 Crore is guaranteed by the government . Hence, as per the appendix C of the IND AS 115 the operator recognizes a “financial asset” to the extent it has a contractual right to receive cash.

Accounting Entry :

Particulars	Debit (In Cr)	Credit (In Cr)
During Construction : (Based on POC)		
Financial Asset Dr	110	
To Construction Revenue		110
(Being revenue recognised on account of completion of construction @ Fair Value of Construction Services)		

ACCOUNTING PRINCIPLES

Solution :

Particulars	Debit (In Cr)	Credit (In Cr)
Recording of Construction Cost		
Cost of construction (profit or loss) Dr	**100**	
To Bank / Creditors		**100**
(Recognized actual costs relating to construction services)		

Particulars	Debit (In Cr)	Credit (In Cr)
During Operation phase :		
Financial asset Dr	15	
To Finance Income**		15
(Recognized finance income as per Ind AS 109)		

****The finance income is calculated using IIR between Inflows and outflows.**

ACCOUNTING PRINCIPLES

Solution :

Particulars	Debit (In Cr)	Credit (In Cr)
Recording of Expenses during operation phase		
Cost of operation (profit or loss) Dr	**1**	
To Bank / Creditors		**1**
(Recognized actual costs relating to operation services)		

Particulars	Debit (In Cr)	Credit (In Cr)
Recording of operational revenue		
Financial Asset Dr	**75**	
To Operational Revenue		**75**
(Being operation revenue recognised)**		

**** 200 Crore - 110 Crore - 15 Crore = 75 Crore**

ACCOUNTING PRINCIPLES

Solution :

Particulars		Debit (In Cr)	Credit (In Cr)
Receipt of Payment :			
Bank Account	**Dr**	200	
To Financial Asset			200
(Recognized finance income as per Ind AS 109)			

ACCOUNTING PRINCIPLES

Example – Intangible Asset

B) Kolhapur- Nagpur Expressway - The Company has also entered into another concession agreement with Government of Maharashtra. The construction cost for the said project will be 110 crore. The fair value of such construction cost is approximately 200 crore. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway for the period of 10 years. Cost of operation is Rs 1 Crore.

Solution :

Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is **not an unconditional right** to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the operator shall recognise an intangible asset to the extent it receives a right (a licence) to charge users of the public service.

ACCOUNTING PRINCIPLES

Solution :

Accounting Entry :

Particulars	Debit (In Cr)	Credit (In Cr)
During Construction : (Based on POC)		
Intangible Asset Dr	**200**	
To Construction Revenue		**200**
(Being revenue recognised on account of completion of construction @ Fair Value)		

ACCOUNTING PRINCIPLES

Solution :

Particulars	Debit (In Cr)	Credit (In Cr)
Recording of Construction Cost		
Cost of construction (profit or loss) Dr	**110**	
To Bank / Creditors		**110**
(Recognized actual costs relating to construction services)		

Particulars	Debit (In Cr)	Credit (In Cr)
During Operation phase :		
Amortization Expenses ** Dr	20	
To Intangible Asset		20
(Being Intangibles amortized)		

****Amortized over life of licence.**

ACCOUNTING PRINCIPLES

Solution :

Particulars	Debit (In Cr)	Credit (In Cr)
Recording of Expenses during operation phase		
Cost of operation (profit or loss) Dr	**1**	
To Bank / Creditors		**1**
(Recognized actual costs relating to operation services)		

Particulars	Debit (In Cr)	Credit (In Cr)
Receipt of Payment :		
Bank Account Dr	At Actuals	
To Revenue		At Actuals
(Being revenue recognizes @ actuals)		

ACCOUNTING PRINCIPLES

Special Cases

- ❑ **Contractual obligations to restore the infrastructure to a specified level of Serviceability :**

The operator may have contractual obligations it must fulfil as a condition of its licence :

- **to maintain the infrastructure to a specified level of serviceability**
- **to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement**

These contractual obligations to maintain or restore infrastructure, except for any upgrade element (covered in this appendix), shall be recognised and measured in accordance with Ind AS 37.

- ❑ **Borrowing Cost - Expensed in P & L as per Ind As 23.**

- ❑ **Items provided to the operator by the grantor - These are not government grants as defined in Ind AS 20. Instead, they are accounted for as part of the transaction price as defined in Ind AS 115.**

DISCLOSURES

- A description of the arrangement
- Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows
- The nature and extent
- Changes in the arrangement occurring during the period
- How the service arrangement has been classified
- The amount of revenue and profits or losses recognized in the period
- The amount of revenue and profits or losses recognized in the period on exchanging construction services for a financial asset or an intangible asset

Thank You