

IFRIC 12 – Service Concession Arrangements (SCA) SIC 29 – Disclosures - SCA



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Introduction

- IFRIC 12 was issued 30 November 2006
- **IFRIC 12 focuses on**
 - Build-Operate-Transfer type arrangements
 - Rehabilitate-Operate-Transfer type arrangements

Scope of IFRIC 12

- **An arrangement is said to be within scope of IFRIC 12 if:**
- The grantor controls what services are provided using the infrastructure, to whom and at what price

AND

- The grantor controls any significant residual interest in the infrastructure at the end of the term, or the infrastructure is used for all of its useful life

Example

- 30 year build-operate-transfer road scheme
- Operator incurs construction costs building the road in years 1-5
- Operator receives cash from grantor / users as the road is used in years 6-30

What is the operator's rights over the infrastructure?

- Operator does not recognise concession infrastructure as its property, plant and equipment (PPE)
- Operator does not control the infrastructure. That is, there is no “Fixed Asset Model” under IFRIC 12

Recognition of Consideration received

The operator recognises compensation for construction / upgrade services as

- **Financial Asset** - to the extent that it has an unconditional right to receive cash irrespective of usage of the infrastructure

And/or

- **Intangible Asset** - to the extent it receives a right to charge users

Examples on Consideration on Construction

What asset should the operator recognise in these cases?

1. Grantor pays operator a fixed amount that does not depend on usage of infrastructure **(FA)**
2. Users pay operator for use of infrastructure **(IA)**
3. Grantor pays operator according to use of the infrastructure (“shadow tolls”) **(IA)**
4. Users pay operator for use of infrastructure and grantor pays shortfall between actual revenue and predetermined level (“shortfall guarantee”) **(FA or Both FA & IA)**

Construction Services

- Recognise revenue as services performed
- Allocate total consideration to multiple services based on their relative fair values
- In practice, amount allocated to construction services may be determined by reference to cost plus a reasonable profit margin
- Revenue for construction phase is recognised irrespective of the type of asset recognised

Construction Phase ---→ Operating Phase

Operation Revenue

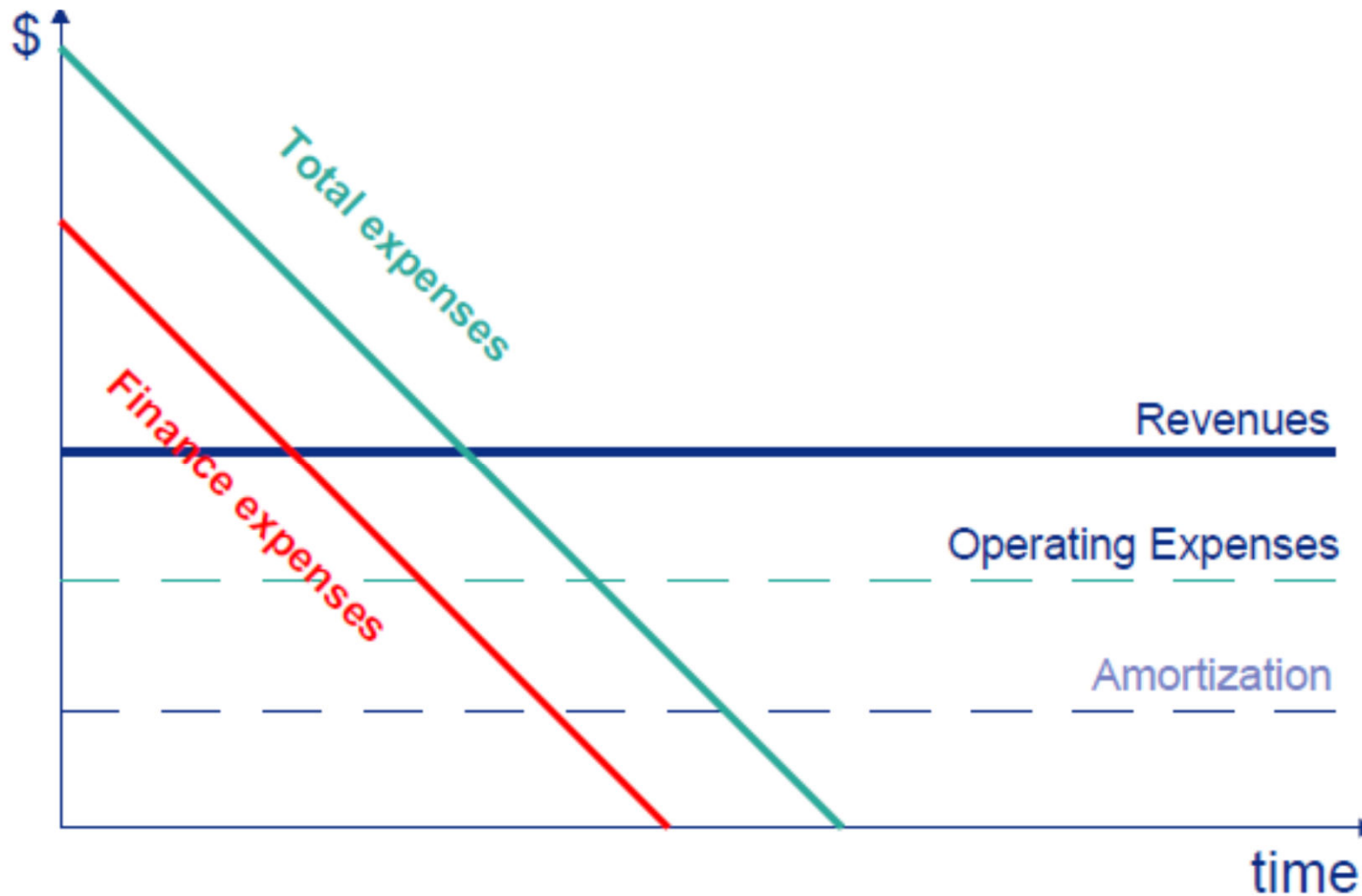
- If the operator recognises an intangible asset, then charges for use of the infrastructure are recognised in revenue as earned
- If the operator recognises a financial asset, then payments received are allocated between pay down of the financial asset and compensation for operation services

Construction Phase → Operating Phase

Accounting for Intangible Asset

- In general measured under the cost mode
- Amortise over expected useful life
 - Use an amortisation method that is consistent with how benefits are consumed (Usually, “straight line method”)
 - Interest methods of amortisation not permitted

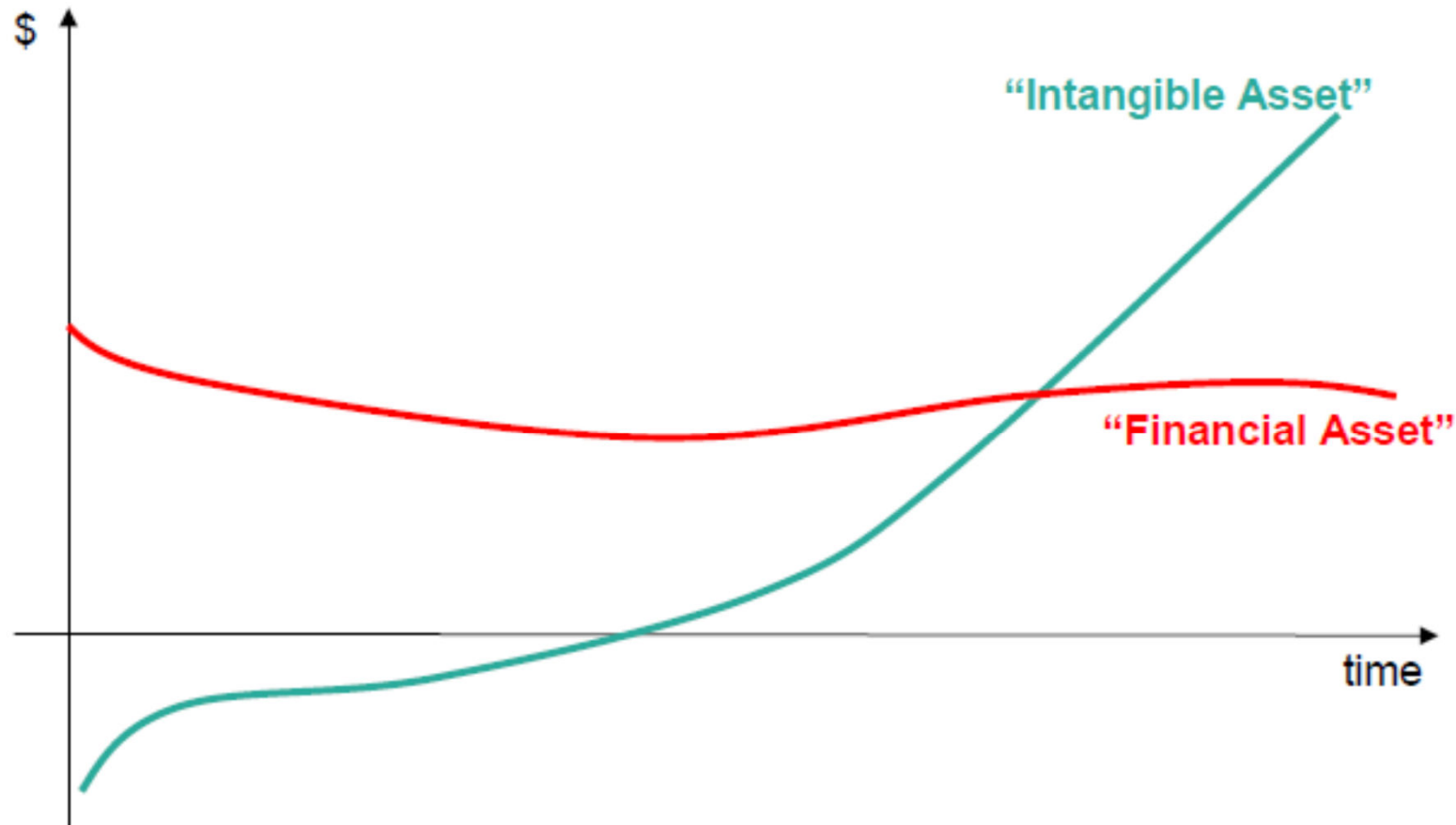
Revenue Vs Expenses – Intangible Asset



Accounting for Financial Asset

- IFRIC 12 require the operator to allocate the total consideration to the various services provided “by reference to the relative fair values of the services delivered”. For example, single periodic payment by the Grantor (“availability payment”).
- In practice, the operator might estimate the relative fair value of the services cost plus a reasonable profit margin
- Any upgrade element is accounted for as a revenue generating activity (e.g. resurface the road).

Comparison between IA and FA



Case of a Hybrid Model

- If the operator is paid for the construction services partly by a **financial asset** and partly by an **intangible asset** it is necessary to account separately for each component of the operator's consideration.
- **Example:**
 - The fair value of the construction services is 1,050.
 - The terms of the arrangement allow the operator to collect tolls from drivers using the road.
 - In addition, the grantor guarantees the operator a minimum amount of 700.

Application & Transition

- Effective for annual periods beginning on or after 1 January 2008
- Early adoption permitted
- Full retrospective application is required unless impracticable
- Transition relief if retrospective application is impracticable
 - Reclassify previously recognised assets as financial and/or intangible assets, without remeasurement
 - Test financial and intangible assets for impairment

SIC 29 Disclosure – Service Concession Arrangement

Prescription under SIC 29

- SIC 29 prescribes
 - the information
 - that should be disclosed
 - in the notes to the financial statements of
 - a concession operator and a concession provider
 - when the two parties are joined by a service concession arrangement

Disclosure Requirements under SIC 29

The following should be disclosed in each period:

- a description of the arrangement;
- significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (such as the period of the concession, re-pricing dates, and the basis on which re-pricing or re-negotiation is determined);

Disclosure Requirements under SIC 29

- the nature and extent (quantity, time period, or amount, as appropriate) of:
 - rights to use specified assets;
 - obligations to provide or rights to expect provision of services;
 - obligations to acquire or build items of property, plant and equipment;
 - obligations to deliver or rights to receive specified assets at the end of the concession period;
 - renewal and termination options; and
 - other rights and obligations (for instance, major overhauls); and
- changes in the arrangement occurring during the period.

Examples of SCA

- water treatment and supply facilities,
- motorways,
- car parks,
- tunnels,
- bridges,
- airports and
- telecommunication networks

Examples of Arrangement that are not SCA

- Enterprise outsourcing the operation of its internal services like
 - Employee cafeteria,
 - Building maintenance, and
 - Accounting Functions or
 - Information Technology Functions

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.*
- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*
- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

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About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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THANK YOU

