

IPSAS 32 APPLICATION GUIDELINES

April 2026

1.0 Introduction

1.1 IPSAS 32 Service Concession Arrangements (Grantor)

These guidelines prescribe the accounting treatment for service concession arrangements by the grantor. This version is based on the original IPSAS 32 as issued by the International Public Sector Accounting Standards Board (IPSASB). They are developed to assist the users to:

- a. Develop a working-level knowledge of the principles contained in the accounting standard; and
- b. Understand and appreciate the major challenges and benefits resulting from the implementation of IPSAS 32.

These guidelines provide a detailed overview of all the principles contained in the standard, covering definitions and the impact of implementation on the recognition, measurement, and disclosure of information about service concession arrangements entered into by the grantor.

2.0 Understanding Service Concession Arrangements

A service concession arrangement occurs when a Ministry, Department, or Government Agency (referred to as the *grantor*) enters into a binding arrangement with a private sector entity or state-owned entity (referred to as the *operator*), under which the operator uses a service concession asset to deliver public services on behalf of the government for a specified period. The operator receives compensation for its services throughout the duration of the arrangement.

The service concession asset can be:

- a. An existing asset of the grantor; or
- b. An upgrade to an existing asset of the grantor; or
- c. An existing asset of the operator; or
- d. An asset provided by the operator, which the operator
 - i. constructs or develops
 - ii. acquires from a third party

The asset is transferred back to the entity at the end of the agreement, unless the agreement is extended further.

The grantor controls or regulates:

- a. What services the operator must provide with the asset.
- b. To whom these should be provided; and
- c. The price of the services offered.

The operator is compensated for the services rendered over the period of the arrangement.

3.0 Types of Services Concession Arrangements

3.1 Build Own Operate Transfer (BOOT)

The MDA (grantor) enters into a contract with a private developer to design and implement a large-scale project. The operator takes on the risks associated with planning, constructing, operating, and maintaining the project for a specified period. During this time, the operator charges users of the infrastructure to earn a profit. At the end of the agreement, ownership of the project is transferred to the grantor, either at no cost or for an amount specified in the contract (for example, toll roads, where users pay a fee to use the road or highway).

3.2 Design Build Finance Operate (DBFO)

This approach involves a single operator integrating the functions of designing, building, financing, and operating a project. The operator arranges its own financing to construct, maintain, and run the facilities in accordance with the grantor's requirements. Payments to the operator are based on the services delivered and the achievement of specified performance standards over the duration of the contract. This model promotes efficient use of government capital, provides greater predictability of future government cash flows, and transfers financial risks to the private sector, which undertakes due diligence to ensure the project's financial viability.

3.3 Operations Concession Agreements

In this type of arrangement, a private company is granted by the government the exclusive right to operate, maintain, and invest in a public utility for a specified period of time.

4.0 Accounting Implications of IPSAS 32

IPSAS 32 deals exclusively with the accounting treatment for the grantor in service concession arrangements. It is designed to "mirror" IFRIC 12 – Service Concession Arrangements, which provides guidance on accounting from the operator's perspective.

IPSAS 32 requires that both the non-current asset and the corresponding liability be recorded on the government's statement of financial position. This ensures transparency, preventing the understatement of liabilities and the shifting of payment obligations onto future generations.

Thus IPSAS 32 enhances government financial reporting by:

- a. **Accountability:** Service concession assets and liabilities are no longer kept off the balance sheet, improving transparency and oversight.
- b. **Decision-making:** Service concession arrangements are evaluated based on value-for-money considerations rather than merely for reducing reported debt.

5.0 Recognition and Measurement of a Service Concession Asset

The grantor shall recognise a service concession asset provided by the operator, or an upgrade to an existing grantor asset, as a service concession asset if the following conditions are met:

- i. The grantor controls or regulates:
 - a. The nature of services the operator must deliver using the asset.
 - b. The recipients of these services, and
 - c. The price at which the services are provided.
- ii. The grantor retains control through ownership, beneficial entitlement, or other means over any significant residual interest in the asset at the end of the arrangement.

Both conditions above must be satisfied for the service concession asset to be recognised in the grantor's accounts. However, if the asset is expected to be used by the operator for its entire useful life, the second condition regarding residual interest is not required.

In some cases, the use of a service concession asset may be partially regulated, as described in (i) and partially unregulated. Such arrangements may take different forms:

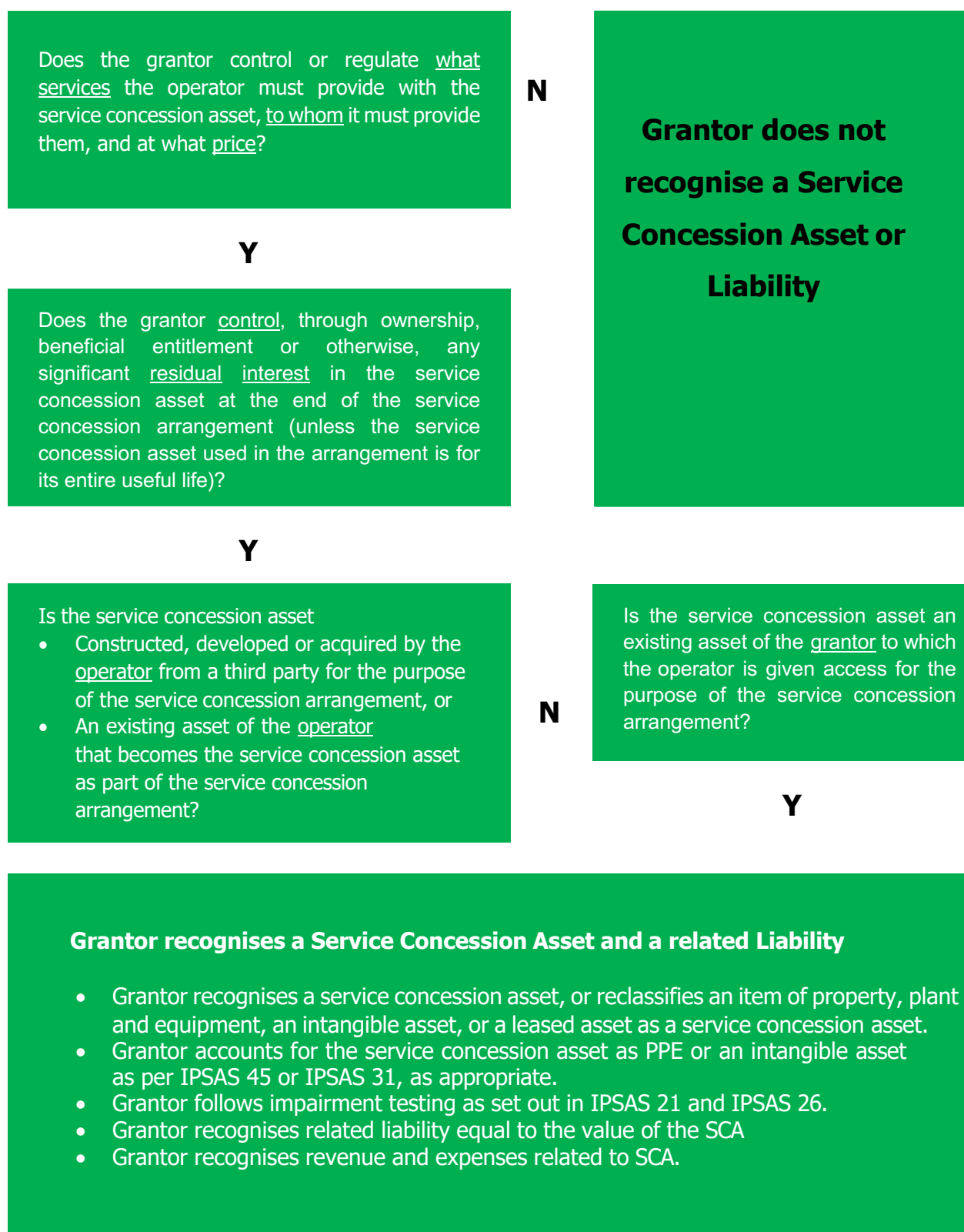
- a. Any asset that is physically separable and can operate independently and qualifies as a cash-generating unit under IPSAS 26 Impairment of Cash-Generating Assets, should be analysed separately to determine whether the condition in (i) is met if it is used entirely for unregulated purposes, for example, a private wing of a hospital while the remainder serves public patients.
- b. When unregulated activities are purely ancillary (e.g., a hospital shop), control tests are applied as if those activities did not exist. The presence of such ancillary services does not diminish the grantor's control over the service concession asset.

The binding arrangement establishes the mandated functions, terms, and conditions of the service concession:

1. It transfers the right to use the asset for providing specified services, and defines the operator's obligations to deliver these services according to stipulated performance requirements. The grantor also determines who is eligible to receive the services, typically prioritising public interest.
2. The binding arrangement regulates the price charged by the operator and any adjustments over the term of the concession. For example, the grantor may cap fees, guarantee a minimum payment to the operator, or require the operator to return excess profits or reinvest them in asset upgrades. This ensures that the grantor retains oversight of pricing while protecting public interest and value for money.

6.0 Binding Arrangements and Grantor Control

An MDA may use the following decision tree to establish whether it should recognise a service concession asset and related liability.



7.0 Recognition of Service Concession Assets under IPSAS 45 and IPSAS 31

In accordance with IPSAS 45, Property, Plant and Equipment and IPSAS 31, Intangible Assets, a service concession asset shall be recognised in the financial statements of the Grantor when:

- a. It is probable that future economic benefits or service potential associated with the asset will flow to the Grantor; and
- b. The fair value or cost of the asset can be measured reliably during its construction or development.

These criteria ensure that only assets that meet the definition and recognition thresholds of property, plant, and equipment or intangible assets, as appropriate, are brought to account.

Once recognised, service concession assets shall be presented as a separate class of assets in the statement of financial position, to reflect their unique nature and control characteristics under service concession arrangements.

In accordance with IPSAS 32, service concession assets may arise from one or more of the following situations:

- a. Existing asset of the grantor, where an asset already controlled and recognised by the grantor is made available for use by the operator under a service concession arrangement.
- b. Upgrade of an existing asset of the grantor where the operator makes improvements or enhancements to increase the asset's capacity or service potential.
- c. Existing asset of the operator, where the operator contributes an asset for use in the arrangement, and the grantor gains control over the asset through the terms of the agreement; or
- d. Newly acquired or constructed/developed asset, where the operator constructs or develops a new asset, or acquires an asset, on behalf of the grantor in accordance with the service concession arrangement.

Existing assets of the grantor

The service concession arrangement may involve an existing asset of the grantor (the government). When the asset is state-owned, it shall be reclassified as a service concession asset in accordance with IPSAS 45 and 31.

Existing assets of the grantor - Upgrade

An upgrade to an existing asset of the grantor is recognised as a service concession asset if the future economic benefits or service potential the asset will provide are increased. If, on the other hand, the grantor transfers the asset to the operator on a permanent basis, the grantor derecognises the asset.

Example 1: Reclassification of an existing asset

On 1 January 2021, the Government Health Department entered into an arrangement with a private clinic to use existing government-owned premises to provide health services for people with disabilities. At that date, the asset had a carrying amount of CU900,000 and a fair value of CU950,000, and the control criteria for recognising it as a service concession asset were satisfied.

The grantor should reclassify the asset at its carrying amount on the date the control criteria were met (i.e., 1 January 2021), as follows:

Debit: Service Concession Asset	CU700,000
Credit: Property, Plant and Equipment.	CU700,000

Note that the grantor's assets that are reclassified to be service concession assets at their carrying amount without any fair valuing at the date of reclassification.

Existing assets of the operator

The operator may contribute an asset for use in a service concession arrangement that it did not construct, develop, or acquire. In such cases, the grantor must assess whether the asset qualifies as a whole-of-life asset, meaning the grantor controls or regulates the services the operator must provide with the asset, the recipients of those services, and the pricing.

If this condition is satisfied, the asset is recognised as a service concession asset in the grantor's accounts.

Acquired, constructed or developed asset provided by the operator

If the service concession arrangement requires that an asset is acquired, constructed or developed by the operator, then such asset should be recognised on the statement of financial position of the grantor if the conditions for recognition are met.

Example 2:

Railway superstructure – is this a service concession asset, and does it meet the recognition criteria of a service concession asset for the grantor?

The Government Transport Department entered into an agreement with a local operator to design, build, finance and operate a railway superstructure. The contractual agreement is for 25 years, from 2020 to 2045. The Department will receive annually an estimated CU110 million from the train company as user fees (train tickets) and pay CU70 million annually to the operator. The railway is to revert to the government in 2045.

Does the asset meet the definition of a service concession asset? YES

- a. The operator uses the railway to provide a public service on behalf of the grantor for a specified period of time; and
- b. The operator is compensated for its service over the period of the arrangement.

Does the asset meet the recognition criteria of a service concession asset for the grantor: YES

- a. The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- b. The grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement.

Example 3 - Decision Whether an Arrangement is a SCA?

A government Department has been planning a major motorway to by-pass a large metropolitan area for a number of years. It acquired the right-of-way, but the government's normal process for motorway construction was not possible given its financial constraints.

It entered into a 99 year lease of the right-of-way with a consortium of private companies that would design, build, finance operate and maintain the motorway. The arrangement gave the consortium unlimited control over the motorway and its tolls. To meet traffic volumes, the consortium has the ability to expand the motorway and raise toll rates without first consulting the government. The arrangement, although allowing the government the ability to build a light transit system along the right-of-way, restricts it from building any nearby motorway which might potentially compete with the consortium. Is the arrangement a service concession arrangement? Explain

Answer

The arrangement involves the use of an asset to provide public services. The operator uses the asset to provide public services on behalf of the grantor in return for compensation in the form of a grant of the right to earn revenue from third-party users of the service.

What distinguishes a service concession arrangement within the scope of IPSAS 32 from other arrangements is the concept of control of the asset. Arrangements

outside the scope of IPSAS 32 are those that involve service components where the asset is not controlled by the grantor.

IPAS 32 applies when the grantor:

- a. controls or regulates the services provided by the operator, and
- b. controls any significant residual interest in the service concession asset at the end of the term of the arrangement.

In this instance, the government does not meet either condition. The arrangement gave the consortium unlimited control over the motorway and its tolls. There is no significant interest in the asset, so it is not a service concession asset. The arrangement is not a service concession arrangement.

Although the consortium is expected to maintain the motorway throughout the term of the arrangement, the term exceeds the expected life of the asset. The consortium maintains and expands the asset through the toll revenue which it controls.

8.0 Asset Measurement

8.1 Initial measurement:

The grantor shall initially measure the service concession asset at fair value except if the grantor's assets are reclassified to be service concession assets, which is carried out without any fair valuing at date of reclassification. Determining the fair value of the service concession asset often involves the use of estimation techniques.

When there is an open and active market for such type of assets, reference could be made to the market transactions for similar assets. When there is no such market, the fair value will need to be estimated on a different basis, like for example the replacement cost or if it is a new asset, the cost of purchasing or constructing an equivalent asset.

The grantor may compensate the operator for the service concession asset and the service provision by:

- a. Making payments to the operator;
- b. Compensating the operator by other means, such as:
 - i. Granting the operator the right to earn revenue from third parties for the use of such service concession asset; or
 - ii. Granting the operator access to another revenue-generating asset for its use;
- c. A combination of the above.

The grantor should then recognise those assets, previously controlled by the operator, in its statement of financial position once the control criteria are met.

The fair value of the existing operator's assets is derived by making reference to the type of compensation exchanged between the grantor and the operator, as follows:

- a. Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset is that portion of the payments paid to the operator for this asset;
- b. Where the grantor does not make payments to the operator, the asset is accounted for in the same way as an exchange of a non-monetary asset in IPSAS 45, Property, Plant and Equipment and IPSAS 31, Intangible Assets.

For such exchange transactions, the transaction price is considered to be the fair value, unless indicated otherwise.

A grantor applies IPSAS 45 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, are applied to test for impairment.

Separable and Inseparable payments

The fair value of the service concession asset shall include only amounts related to the asset and shall exclude amounts for other components of the service concession arrangement. If the present value of the asset portion of payments to be made is greater than the fair value, the service concession asset should still be initially measured at fair value. In case of inseparable payments, estimation techniques may have to be used to derive the fair value of the service concession asset to ensure that it includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement such as finance charges and other expenses.

9.0 Recognition and Measurement of Liability relating to a Service Concession Asset

When a service concession asset is recognised in accordance with the control criteria outlined above, the grantor must recognise a liability. The grantor shall not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where the operator provides additional consideration.

9.1 Initial Measurement:

The liability recognised shall be initially measured at the same amount as the service concession asset.

9.2 Subsequent Measurement:

Subsequent measurement depends on the nature of the compensation exchanged between the grantor and the operator.

If the MDA compensates the operator for construction by making a predetermined series of payments during the life of the SCA. In that case, it should recognise the assets and a financial liability equal to the full value of the assets [Financial Liability Model].

If the MDA compensates the operator for the construction by granting the operator the right to earn revenues from users, it should recognise the assets and unearned revenue equal the full value of the asset [Grant of a right to the Operator Model]

9.3 Financial liability model

The grantor compensates the operator by making a predetermined series of payments to the operator. The grantor recognises a financial liability, equivalent to that portion of payment pertaining to the asset. The liability does not include the finance charge and service components of the payments made.

The finance charge is based on the operator's cost of capital specific to the service concession asset (if it is practicable to derive). Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (as for the lease of a similar asset, in a similar location and for a similar term), appropriate to the terms and conditions of the arrangement.

The estimate of the rate should be reviewed together with:

- a. The present value of the payments.
- b. The assumed fair value of the asset. and
- c. The assumed residual value, to ensure all figures are reasonable and mutually consistent.

If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement is used.

Example 3: Recognition of Financial Liability

The Government Transport Department entered into an agreement with a local operator to design, build, finance and operate a high-speed railway superstructure. The contractual agreement is for 25 years, from 2020 to 2045. The Department will receive an estimated CU110 million annually from the train company as user fees (in the form of train tickets) and pay CU70 million annually to the operator. Commuters were to use this service at no cost. The railway is to revert to government in 2025.

The railway superstructure, constructed by the operator, qualifies as a service concession asset and meets the recognition criteria for the grantor.

The grantor records a financial liability corresponding to the portion of payments related to the asset, as these payments are determinable and scheduled.

Example 4: Grantor has an obligation to make predetermined payments

In March 2023, the National Water Supply Department entered into a service concession arrangement with a private water company (Water4All Ltd) for a period of 5 years. The agreement specified that Water4All Ltd will use its reverse osmosis plant it acquired at a cost price of CU2 million. The Government (grantor) shall compensate Water4All Ltd (operator) by making monthly payments of CU30,000 for a period of 5 years, CU3,000 of which relates to the service element. The agreement also specifies that if the reverse osmosis plant breaks down, the grantor shall still be liable to make such payments but at a pro-rated amount. The market interest rate is 7%.

In accordance with IPSAS 32, the Government must recognise and measure a financial liability at date when it became party to contractual provisions as follows:

Initial measurement			
		CU	CU
Dr	Service Concession Asset	2,000,000	
Cr	Service Concession Liability		2,000,000
Being the initial recognition of financial liability			
Subsequent measurement			
Dr	Depreciation (2,000,000/5yrs)	400,000	
Cr	Accumulated depreciation on service concession asset		400,000
Being the depreciation expense			

Dr	Finance cost (2,000,000 * 7%)	140,000	
Cr	Service Concession Liability		140,000
Being the interest on service concession liability			
Dr	Service Concession Liability (balancing figure)	184,000	
Dr	Service concession services (3,000 x 12)	36,000	
Dr	Finance cost	140,000	
Cr	Bank (30,000 x 12 months)		360,000
Being the compensation payment to operator			

Example 5 - Service Concession Liability

Department of Public Services (grantor) has entered into a service concession arrangement in which it makes a predetermined stream of payments to a private sector entity (operator) for construction and operation of a waste management facility, including an incinerator.

- The payments have been allocated in the service concession arrangement between capital and service components.
- The term of the arrangement is 21 years from the date of commissioning.
- The payments commence in the first month of the second year when the service concession asset is commissioned and receiving waste.
- No payments are due during the construction of the service concession asset.

Waste Management Facility				
Service Concession Arrangement Payments				
	Payments		Present Value	
	Monthly CU'000	Annual CU'000	Start Year 2 CU'000	End Year 2 CU'000
Capital Component	260	3,120	31,000	30,392
Operating and maintenance	198	2,376		
Total	458	5,496		

*The discount rate is 10%. This is the estimated private sector weighted average cost of capital for projects with a similar scale, business type and comparable risk profile.

Questions

- 1) Using the information in the table, what entries are made to record the service concession asset and liability? Explain
- 2) What entries are made to allocate payments made in year 2? Explain

Answer

The Department does not make payments during construction. Entries to record the service concession asset at the beginning of Year 2 when it is in service and receiving waste for treatment according to the terms of the service concession arrangement are set out below:

Recording of Asset

	Debit CU'000	Credit CU'000
Service concession asset (separate class under IPSAS 45) (PV of predetermined series of payments allocated to the capital component)	31,000	
Service concession financial liability (measured at the same amount as the service concession asset)		31,000
Being recording of service concession asset at PV of payments allocated to the capital component and of service concession financial liability, measured at the same amount as the service concession asset.		

Recording of Liability and Expense

	Debit CU'000	Credit CU'000
Financial liability (portion that reduces liability = (31,000 – 30,392))	608	
Finance charges expense (capital component less liability reduction (3,120 – 608))	2,512	
Cash		3,120
Being allocation of cash payment in year 2 of CU3,120,000 between finance charge expense based on agreed cost of capital 10% and reduction in financial liability		
Operating expense	2,376	
Cash		2,376
Being charging of payment in respect of operating expenses direct to operating expense cost in the Statement of Revenue and Expenditure		

9.4 Grant of a right to the operator model

The grantor compensates the operator by granting the operator the right to earn revenue from third-party users or granting the operator access to another revenue-generating asset for the operator's use. The grantor does not recognise the revenue immediately. In such a case, the grantor recognises a liability for any portion of the revenue that is not yet earned. This is usually permitted until the purchase price or construction cost of the service concession asset is settled in full, at which point the operator will only be compensated for service provision. Revenue is recognised in the books of the grantor according to the economic substance in the service concession arrangements.

In instances where the grantor compensates the operator solely for the usage of a service concession asset by third-party users, and not the acquisition of the service concession asset, such payments are accounted for as expenses in accordance with IPSAS 1, Presentation of Financial Statements.

Example 6: Grant of a right to the operator model

In May 2024, a private construction company (XYZ Ltd) entered into an agreement with the Public Works Department to design, build and operate a major bridge in the Country. Public Works Department pays annual grants amounting to approximately 60% of all costs to XYZ Ltd. The toll rate varies between CU3.50 and CU22.50 per vehicle (which is approximately 40% of all costs). After 40 years, the capital expenditure will have been recovered, and the tunnel will be free. The Public Works Department will then continue to pay for the maintenance and management of the tunnel.

This follows the Grant of a Right to the Operator Model because the grantor (Public Works Department) is compensating the operator (XYZ Ltd) by granting the operator the right to earn revenue from third-party users.

Accounting Treatment

- a. The grantor (Public Works Department) recognises a liability for any portion of the revenue that is not yet earned.
- b. The grantor (Public Works Department) recognises revenue according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognised.
- c. The grantor (Public Works Department) expenses the annual grants paid to the operator (XYZ Ltd).

Example 7: Right to earn revenue from Service Concession Asset

The government and Boating Ltd entered into a four-year service concession agreement to provide shipping services between the islands. Under the agreement, the operator uses the ships acquired for CU4.5 million to deliver these services. The ships have a useful life of 10 years.

The agreement specifies that the operator has the right to use the ships and earn revenue from their operation until the ships are fully paid. After that, the operator will receive only service fees of CU500,000 per year for the services provided.

During the four-year period, the operator recorded the following revenues:

Year 1: CU1,800,000,
Year 2: CU 1,100,000,
Year 3 CU 800,000,
Year 4 CU800,000

Total ship revenues for these 4 years amounted to:

Year 1: CU3,500,000,
Year 2:CU 3,200,000,
Year 3 CU3,000,000,
Year 4 CU2,000,000

The grantor shall account for the transactions as follows:

Initial measurement			
		CU	CU
Dr	Service Concession Asset	4,500,000	
Cr	Unearned revenue liability		4,500,000
Being the right granted to the operator to earn revenue from third parties			
Subsequent measurement			
Year 1			
Dr	Depreciation (4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
Being the depreciation of asset			
Dr	Bank (Balancing figure)	1,200,000	
Dr	Unearned revenue liability (Operator)	1,800,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		3,500,000
Being the revenue earned during the first year			

Year 2			
Dr	Depreciation (4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
Being the depreciation of asset			
Dr	Bank (Balancing figure)	1,600,000	
D	Unearned revenue liability (Operator)	1,100,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		3,200,000
Being the revenue earned during the second year			

Year 3			
Dr	Depreciation (4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
Being the depreciation of asset			

Dr	Bank (Balancing figure)	1,700,000	
Dr	Unearned revenue liability (Operator)	800,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		3,000,000
	Being the revenue earned during the third year		

Year 4			
Dr	Depreciation (4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
	Being the depreciation of asset		
Dr	Bank (Balancing figure)	700,000	
Dr	Unearned revenue liability (Operator)	800,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		2,000,000
	Being the revenue earned during the fourth year		

Period	Unearned Revenue
	4,500,000
Year 1	-1,800,000
Year 2	-1,100,000
Year 3	-800,000
Year 4	-800,000
	0

The grantor should recognise revenue and decrease the liability based on the economic substance of the service concession arrangement.

The grantor earns revenue by allowing the operator access to the service concession asset, enabling the operator to generate income from third-party users. Therefore, the revenue recognition pattern should align with the access granted to the operator. If the access remains constant throughout the service concession arrangement, it may be appropriate to recognise revenue on a straight-line basis over the arrangement's duration. However, if the access varies during the arrangement, revenue should be recognised in proportion to the access granted. Since service concession arrangements often span many years, it may be necessary to use discounting methods to account

for the time value of money. In such cases, the discount rate should correspond to the term of the service concession arrangement.

The grantor's revenue will only be affected by the operator's revenue if the service concession arrangement includes mechanisms like revenue-sharing provisions. The operator generates revenue from users of the service, and this revenue is typically variable, depending on various factors. The grantor, on the other hand, earns revenue from the operator, which is generally determined by the terms of the arrangement.

The operator may also provide additional revenue to the grantor, such as upfront payments, ongoing payments, or other forms of consideration, in exchange for the right to use the service concession asset for the duration of the arrangement. These payments should be accounted for separately by the grantor, in accordance with IPSAS 9, *Revenue from Exchange Transactions*, or IPSAS 47, *Revenue*, if early adoption is applied.

Sometimes, the operator is compensated through a combination of predetermined payments and the right to generate revenue from third-party use of the service concession asset or another asset. In that case, each portion of the liability must be treated separately. The consideration should be split into a financial liability portion and a liability portion related to the right granted to the operator to earn revenue from third-party use.

Example 8 - Treatment of a SCA in Grantors Account

The Department of Built Environment (the grantor) entered into the service concession arrangement for its waste management facility on January 1, 20X9. Under the arrangement, the operator will provide waste management, including incineration, services to the public for 20 years, for which the Department will pay the operator. The waste management facility will be transferred to the Department at the end of the 20-year service concession arrangement. The facility has an expected useful life of 40 years. The Department measures property, plant and equipment using the cost model.

Payments are to be made annually, at the end of each year. The annual payment of CU90,000, is a single payment covering the repayment of the liability for the capital asset, the finance charge and the services provided by the operator. Individual elements are not separately identified.

The Department does not know the fair value of the facility. However, the Department of Built Environment could buy the services being provided under the service concession arrangement for CU14,515 annually. The Department of Built Environment incremental cost of borrowing is 6.995%.

Questions

- a. How should the Department of Built Environment measure the waste management facility on initial recognition?
- b. What amounts would the Department Y include in its statement of financial position as at December 31, 20X9 for:
 - i. The waste management facility asset: and
 - ii. The related liability?
- c. What expenses would the Department of Built Environment recognise in its statement of expenditure and revenue for 20X9 in respect of the service concession arrangement?

Answers

- a. The Department of Built Environment should recognise the waste management facility asset at its fair value. As it does not know the fair value of the asset, it will need to estimate this from the information that it does have.
- b. The annual payment required is CU90,000. The Department of Built Environment knows that the fair value of the services being provided under the service concession arrangement is CU14,515. It follows that the remaining payment of CU75,485 (CU90,000-CU14,515) relates to the repayment of the liability and the related finance charge.
- c. Using its incremental borrowing cost of 6.995%, the Department can calculate the net present value of 20 annual payments of CU 75,485. The net present value of these 20 yearly payments of CU 75,485 using a 6.995% discount rate is CU 800,000. The Department therefore measures the waste management facility asset at CU 800,000 on initial recognition. The Department will also recognise a liability for the same amount.

Note: The net present value can be calculated in a spreadsheet using the NPV function

8.0 Contingent assets or liabilities

Contingent assets or liability may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

Appendices

A. Accounting Policy

Below is a template accounting policy for service concession arrangements in the financial statements of the Grantor.

Template accounting policy
Accounting Policy
The Department of Public Works (DPW) entered into public-private partnerships or service concession agreements with private sector entities to construct (or upgrade), operate, and maintain the high-speed railway superstructure for 25 years. Over the life of the concession, DPW makes payments for the construction, financing, operation, maintenance, and renewal of these infrastructure assets, as well as for the delivery of services covered by the concession.
DPW controls or regulates the services the operator must provide using the high-speed railway superstructure assets, including who will receive the services and at what price. Additionally, DPW retains control over the residual interest in the assets at the end of the concession period.
In some cases, DPW may be entitled to a portion of the revenue generated by the concessionaire, while certain concessions may require DPW to make variable operational payments if usage volumes fall below agreed-upon levels.
The service concession assets are recorded in DPW's Statement of Financial Position, along with the corresponding liability. Both the asset valuation and the related liability are determined based on the discounted value of the construction payments DPW is required to make under the concession agreement.
Operational and financing payments made under the concession agreements are recognised in the Statement of Revenue and Expenditure in the year they are paid. Any obligations to make operational payments throughout the concession period are disclosed in the notes to the financial statements.

B. Illustrative Example Reporting of Service Concession Arrangement Statement of Financial Position

Statement of Financial Position as at 31st December 20X4 (extract)			
	Note	20X4 - CU	20X3 - CU
Non-Current Assets			
Property Plant and Equipment	10	xx	xx
Current Liabilities			
Service Concession Liability	17	xx	xx
Non-Current Liability			
Service Concession Liability	17	xx	xx

C. Extract from Notes to the Financial Statements

The Service Concession Arrangements are disclosed as a separate category within Property, Plant, and Equipment, showing movement for both the current and previous years.

Note 17: Extract from notes to the financial statements

During the financial year, the MDA entered into a service concession agreement with a private company to provide public bus transport services to the newly developed town centre, aimed at reducing congestion and promoting economic growth in the area. The first phase of the project began on 1st January 20X4. The service provider is responsible for supplying the infrastructure for the bus routes, which will be constructed over a 3-year period and brought into service in phases.

The MDA granted the company exclusive rights to operate the service for 25 years, with no option for renewal. The pricing of fares is regulated. The service provider will earn revenue from the fares collected. Upon the agreement's expiry, the government will retain ownership of the infrastructure, while the service provider will keep the vehicles. The following service concession assets and liabilities have been recognised as of the reporting date:

Note 17: Extract from notes to the financial statements		
	20X4 - CU	20X3 - CU
Service Concession Arrangement Assets		
Fair value of service concession asset as recognised in:		
Property, Plant and Equipment	XXX	-
Accumulated depreciation to-date	(XX)	-
Net carrying amount	XXX	-
Service concession liability at beginning of year	XXX	-
Service concession revenue recognised	(XX)	-
Service concession liability at year end	XXX	-
Included in liabilities due within one year	XXX	-
Included in liabilities due after more than one year	XXX	-

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