

FINANCIAL REPORTING WORKSHOP

IPSAS 32

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IPSAS 32

**—SERVICE CONCESSION ARRANGEMENTS:
GRANTOR**

Objective

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Effective Date



An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged.

Scope



An entity that prepares and presents financial statements under the **accrual basis of accounting** shall apply this Standard in accounting for service concession arrangements.

This Standard applies to all public sector entities other than Government Business Enterprises.(GBEs use IFRSs)

What is a Service Concession Arrangement (Public-Private Partnership or PPP)?

A binding arrangement between a grantor and an operator in which

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

An operator



Is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

Service Concession Asset

An asset used to provide public services in a service concession arrangement that:

- a) Is provided by the operator which:
 - i. The operator constructs, develops, or acquires from a third party; or
 - ii. Is an existing asset of the operator; or

- b) Is provided by the grantor which:
 - i. Is an existing asset of the grantor; or
 - ii. Is an upgrade to an existing asset of the grantor.

Recognition and Measurement of a Service Concession Asset

The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

- (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

Initial Measurement



The grantor shall initially measure the service concession asset at its **fair value**

Where an existing asset of the grantor meets the conditions the grantor shall reclassify the existing asset as a service concession asset.

Subsequent To Initial Recognition

After initial recognition or reclassification, service concession assets shall be accounted for as a separate class of assets in accordance with IPSAS 17 (Property plant and equipment) or IPSAS 31 (Intangible assets), as appropriate.

Recognition and Measurement of Liabilities



Where the grantor recognizes a service concession asset initially, the grantor shall also recognize a liability.

The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator

Initial Measurement of Liability



The liability recognized shall be initially measured at the same amount as the service concession asset adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

Subsequent Recognition Liabilities

The grantor recognizes a liability, depending on the way the grantor compensates the operator:

- Financial liability model
- Grant of a right to the operator model

Financial liability model



The grantor compensates the operator for the construction, development, acquisition, or upgrade of a service concession asset by making a predetermined series of payments.

The IPSAS standards relating to financial instruments (IPSAS 28, 29 and 30) apply to this financial liability

Grant of a right to the operator model

The grantor compensates the operator for the construction, development, acquisition, or upgrade of a service concession asset and related services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset.

The grantor accounts for this liability as the unearned portion of the revenue arising from the exchange of assets between the grantor (a service concession asset) and the operator (an intangible asset).

Treatment of Revenues and Expenses



The grantor's treatment of revenues and expenses depends on these models:

- Financial liability model
- Grant of a right to the operator model

Financial liability model



The grantor allocates payments to the operator according to their substance as a reduction in the liability, a finance charge, and charges for services provided by the operator.

Financial liability model



The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

- (a) Specified or determinable amounts; or
- (b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts

Grant of a right to the operator model



The grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement.

The grantor recognizes revenue and reduces the liability according to the economic substance of the service concession arrangement.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets

The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Asset

Other Revenues



Revenues. The grantor shall account for revenues from a service concession arrangement in accordance with IPSAS 9, Revenue from Exchange Transactions.

Perspective

Operator

Do not recognize
physical assets

Recognize
financial asset

Recognize
intangible asset

Grantor

Recognize
physical assets

Recognize
financial liability

Recognize
unearned revenue

Disclosures



a) A description of the arrangement;

a) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows

(c) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:

(i) Rights to use specified assets;

(ii) Rights to expect the operator to provide specified services in relation to the service concession arrangement;

(iii) Service concession assets recognized as assets during the reporting period, including existing assets of the grantor

- (iv) Rights to receive specified assets at the end of the service concession arrangement;
- (v) Renewal and termination options;
- (vi) Other rights and obligations (e.g., major overhaul of service concession assets); and
- (vii) Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and reclassified as service concession assets;

Transition



A grantor that has previously recognized service concession assets and related liabilities, revenues, and expenses **shall apply this Standard retrospectively** in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

A grantor that has not previously recognized service concession assets and related liabilities, revenues, and expenses shall either:

- (a) Apply this Standard retrospectively in accordance with IPSAS 3; or
- (b) Elect to recognize and measure service concession assets and related liabilities at the beginning of the earliest period for which comparative information is presented in the financial statements

God Bless You



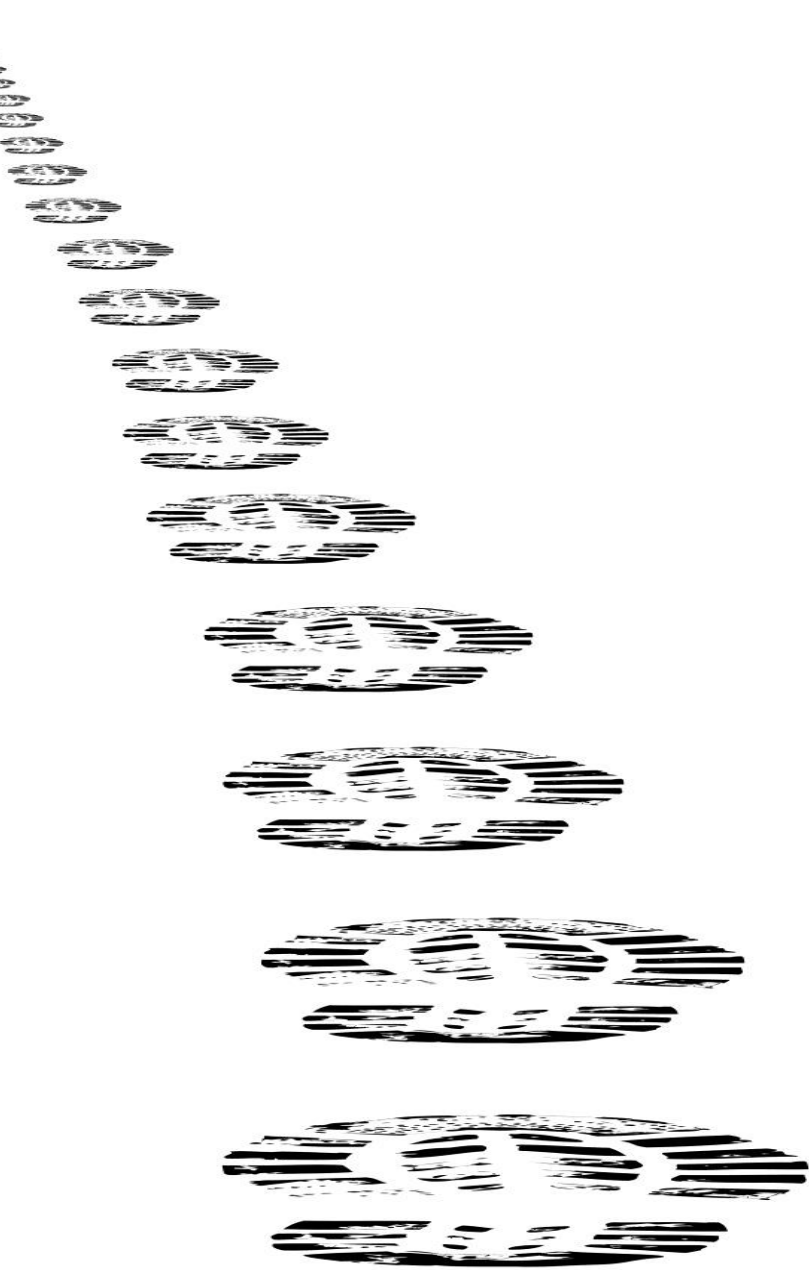
Questions & comments



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Training Consultant



“If a man is called to be a street sweeper, he should sweep streets even as a Michaelangelo painted, or Beethoven composed music or Shakespeare wrote poetry. He should sweep streets so well that all the hosts of heaven and earth will pause to say, 'Here lived a great street sweeper who did his job well.'”