FASB Emerging Issues Task Force

Issue No. 12-H

Title: Accounting for Service Concession Arrangements

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Previously distributed EITF materials: Issue Summary No. 1, dated October 17, 2012; Issue Summary No. 1, Supplement No. 1, dated May 27, 2013

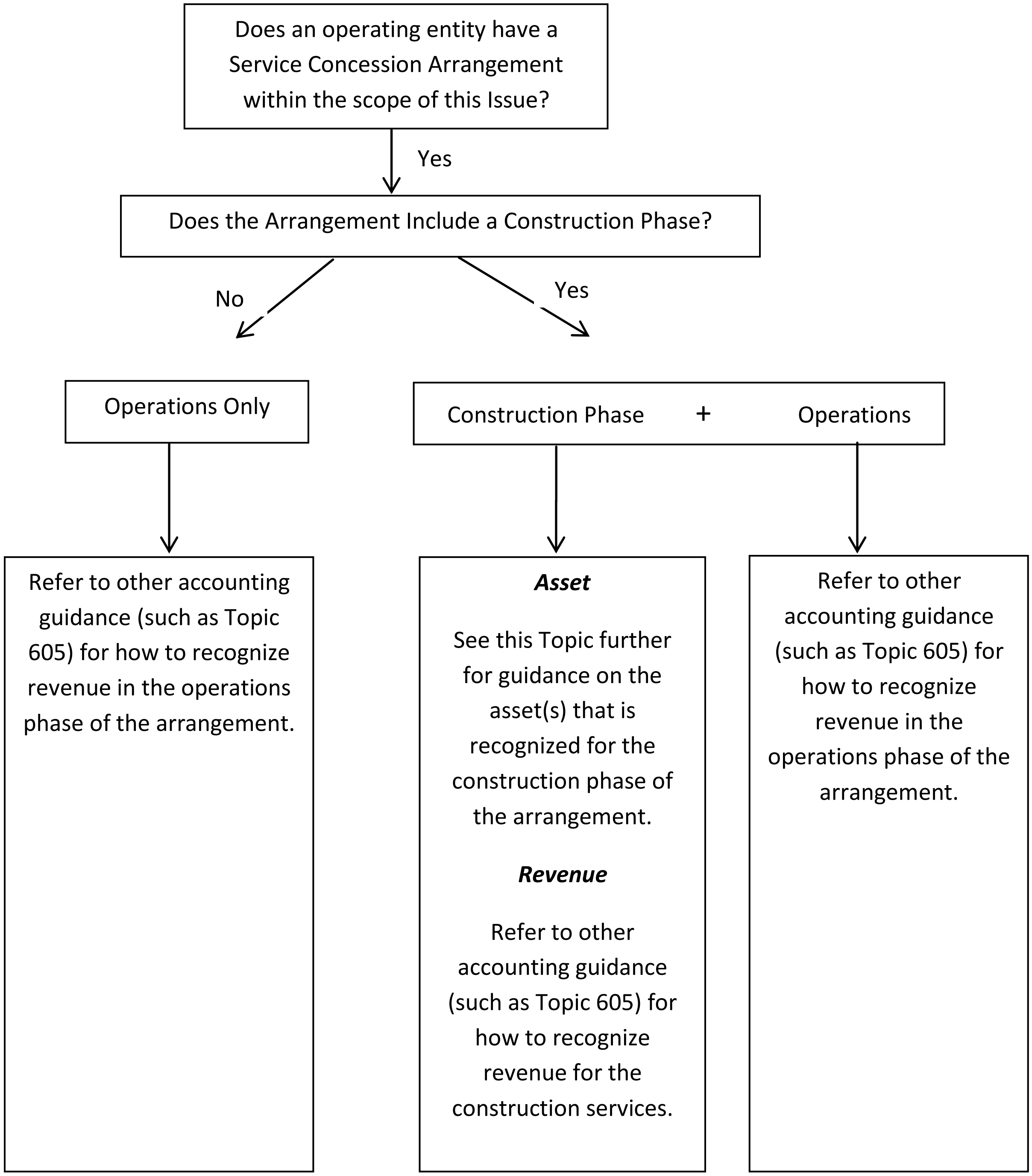
Background

1. This Supplement provides an overview of the guidance that is being provided by the amendments resulting from Issue 12-H. In addition, it includes implementation examples that some Task Force members suggested should be included in the proposed Update and that were referred to in the paragraph preceding Question 4 in Issue Summary No. 1, Supplement No. 1.

Overview

2. The following flowchart provides an overview of the guidance that this Issue provides:

*** The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**



Implementation Examples

3. The following examples, which would be included as amendments to the Codification, illustrate View B and View C of Issue 2 in Supplement No. 1. They do not illustrate View A, which would recognize a financial asset even if the payment is contingent on the operating entity

ensuring specified quality or efficiency requirements, nor do they illustrate the bifurcation process if the arrangement contains both a financial asset and a contract asset, as referred to in View C.

Illustrations

>> Example 1: Financial Asset Model

The terms of a service concession arrangement require an operating entity to construct a toll road in Year 1 and then operate it for 9 years thereafter. The cash inflows to be received over the life of the arrangement for construction services are specified or determinable and guaranteed by the grantor in the amount of $600. The grantor will make all payments for the construction services to the operating entity in Years 2-9, however, the payments are not contingent upon the operating entity ensuring that specified quality and efficiency standards are met.

The operating entity's cost of the construction services is $500 and the operating entity allocates consideration of $600 to the construction services. At the end of Year 10, the arrangement will end. The arrangement is within the scope of Topic 853.

The consideration that the operating entity receives for the construction services is a financial asset that represents the right to receive cash from the grantor upon completion of the construction of the infrastructure. Upon completion of the construction services, the operating entity has an unconditional right to $600 for which nothing other than the passage of time is required before payment is due. Revenue for the construction and operation phases is recognized in accordance with Topic 605.

It is assumed that revenue is recognized at the end of the year upon completion of the construction. The following journal entries are made by the operating entity for construction services:

Upon completion of the construction

Dr. Financial Asset	$600	
Cr. Construction Revenue		$600

To recognize revenue relating to construction services

Dr. Cost of Construction	$500	
Cr. Cash		$500

To recognize costs relating to construction services

>>Example 2: Contact Asset Model

The terms of a service concession arrangement require an operating entity to construct a toll road in Year 1 and then operate it for 9 years thereafter. The cash inflows to be received over the life of the arrangement for the construction services are specified or determinable and guaranteed by the grantor and *are contingent upon the operating entity ensuring specified quality and efficiency standards are met*. The grantor will make all payments to the operating entity in Years 2-9.

The operating entity's cost of the construction services is $500 and the operating entity allocates consideration of $600 to the construction services. At the end of Year 10, the arrangement will end. The arrangement is within the scope of Topic 853.

The consideration that the operating entity receives for the construction services is a contract asset that represents the right to receive consideration from or at the direction of the grantor. Upon completion of the construction services, the right to receive cash from the grantor is conditional on ensuring that specified quality and efficiency standards are met. Revenue for the construction and operation phases is recognized in accordance with Topic 605.

It is assumed that revenue for the construction services is recognized at the end of the year upon completion of the construction. The following journal entries are made by the operating entity for construction services:

Construction services provided

Dr. Contract Asset	$600	
Cr. Construction Revenue		$600

To recognize revenue relating to construction services

Dr. Cost of Construction	$500	
Cr. Cash		$500

To recognize costs relating to construction services