Service concession arrangements

Handbook

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Revenue from operating government infrastructure

Arrangements to provide services to a government or public sector entity are as varied as the services the government provides to the public. Topic 853, Service Concession Arrangements, provides only limited guidance on the accounting for service concession arrangements – which means that the appropriate accounting for some arrangements with the government can be especially challenging.

A service concession arrangement is between a government or public sector entity (grantor) and a private sector entity (operator) where the operator operates the grantor's infrastructure (e.g. airports, toll roads, bridges, tunnels, prisons and hospitals) for a period of time. The operator may receive payments from the grantor to perform the public service or from the public directly as a result of using the services.

These unique arrangements have terms that make determining the appropriate revenue recognition challenging. Through Q&As and examples, this Handbook takes you through the necessary steps to determine if an arrangement falls within the guidance of Topic 853 and, if so, the application of the principles of Topic 606, Revenue Recognition.

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About this publication

The purpose of this Handbook is to assist you in applying the standard on service concession arrangements (Topic 853) and the requirements of other standards that affect the accounting for service concession arrangements.

This Handbook draws on the more extensive guidance in KPMG Handbook, Revenue recognition.

Scope: operator accounting

This Handbook focuses on the US GAAP accounting by the private sector operator in a service concession arrangement. It does not address the accounting by the public sector grantor.

Organization of the text

Our guidance is explained through Q&As that reflect the questions we are encountering in practice, and illustrative examples.

Each chapter of this Handbook includes excerpts from the FASB's Accounting Standards Codification®, and overviews of the relevant requirements. Our in-depth guidance is explained through Q&As that reflect the questions we are encountering in practice. We also include examples to explain key concepts.

Our commentary is referenced to the Codification and to other literature, where applicable. The following are examples.

- 853-10-15-3 is paragraph 15-3 of ASC Subtopic 853-10.
- ASU 2014-05.BC6 is paragraph 6 of the basis for conclusions to Accounting Standards Update No. 2014-05.
- TRG 01-15.16 is agenda paper no. 16 from the meeting of the IASB's and the FASB's Joint Transition Resource Group for Revenue Recognition (TRG) held in January 2015.

Abbreviations

We use the following abbreviations in this Handbook:

IP	Intellectual property
PP&E	Property, plant and equipment
TRG	The IASB's and the FASB's Joint Transition Resource Group for Revenue Recognition

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1. Executive summary

A service concession arrangement is between a government or public sector entity (grantor) and a private sector entity (operator) where the operator operates the grantor's infrastructure (e.g. airports, toll roads, bridges, tunnels, prisons, hospitals) for a period of time.

An operator for an arrangement that is in the scope of Topic 853 applies the revenue standard (Topic 606). The purpose of this Handbook is to assist you in determining when an arrangement is within the scope of Topic 853 and in applying Topic 606 to those service concession arrangements to which Topic 853 applies.

Scope

Topic 853 applies to the accounting for a private sector entity that operates the infrastructure of a government or public sector entity to provide a public service.

The guidance does not apply to the grantor's accounting or to arrangements in the scope of Topic 980 (regulated operations).

Topic 853 applies to certain service concession arrangements under which a government or public sector entity enters into a contract with a private sector entity to operate the grantor's infrastructure.

Topic 853 applies to service concession arrangements in which the grantor controls any residual interest in the infrastructure and controls the ability to modify or approve the terms of services provided to the public.

A service concession arrangement in the scope of Topic 980 on regulated operations is not in the scope of Topic 853.

If the operator has legal title to the grantor's infrastructure until the end of the arrangement, we believe the scoping guidance is unclear and therefore it is acceptable to either (1) apply lease accounting (Topic 842), or (2) apply Topic 853, which is the application of the revenue standard (Topic 606).

Topic 853 also stipulates which standards do not apply to service concession arrangements in the scope of Topic 853. In particular, the operator does not recognize the grantor's infrastructure as PP&E, and lease accounting does not apply.

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Step 1: Identify the contract with the customer

The grantor is always the customer in a service concession arrangement.

The contract term that the accounting applies to may not always be the same as the stated contract term.

The operator may receive payments from the grantor to perform the public service or from the public directly as a result of using the services. Topic 853 concludes that in all cases the grantor is the customer.

A contract between the operator and the customer (grantor) that is in the scope of Topic 606 is accounted for under the revenue model when the contract is legally enforceable, and all of the Topic 606 contract existence criteria are met.

Determining the contract term under Topic 606 is important and will not always be the same as a stated term in the contract.

Step 2: Identify the performance obligations

Operators evaluate whether their promises (e.g. construction, operations, major maintenance) are accounted for separately.

Performance obligations are the unit of account under Topic 606 and generally represent the distinct goods or services that are promised to the customer (grantor).

Promised services include providing operations services, and may also include construction, upgrading and maintaining the grantor's infrastructure, or other ancillary services.

Promises to the customer (grantor) are accounted for separately if they are both (1) capable of being distinct and (2) distinct in the context of the contract.

If the distinct goods or services are substantially the same and have the same pattern of transfer to the customer (grantor) over time, they are combined into a single performance obligation (a 'series'). This is often the case when the operator stands ready to operate the infrastructure over a period of time as and when the public uses it.

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Step 3: Determine the transaction price

Service concession arrangements often include variable consideration that forms a significant portion of the transaction price (e.g. toll charges).

The operator may be required to estimate these payments over significant periods of time.

The transaction price is the amount of consideration to which the operator has rights under the contract, which could include consideration to be paid by the grantor or the users of the grantor's infrastructure. This consideration can include fixed and variable amounts.

Transaction price considerations important in service concession arrangements include the following.

— **Variable consideration**, which is generally estimated at contract inception and is updated at each reporting date for any changes in circumstances. The consideration in a service concession arrangement is often at least partly variable – e.g. based on toll road usage or the number of hospital stays.

— **Consideration payable to the grantor**, which represents a reduction of the transaction price unless it is a payment for distinct goods or services the operator receives from the customer (grantor).

— **Significant financing component,** which may exist in a contract when payment is received significantly before or after the transfer of goods or services. This could result in an adjustment to the transaction price to impute interest income/expense. However, if a substantial portion of the consideration is variable and outside the control of both the operator and the grantor, there is no significant financing component.

Step 4: Allocate the transaction price

An operator generally allocates transaction price based on estimated stand-alone selling prices for its performance obligations.

In some cases, an operator may be allowed to allocate all

The transaction price is allocated at contract inception to each performance obligation (e.g. construction, operation services) to depict the amount of consideration to which the operator expects to be entitled in exchange for transferring the promised goods or services to the grantor (the public service).

An operator generally allocates the transaction price to each performance obligation in proportion

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of the variable consideration to one service. This may eliminate the need to estimate in Step 3.

to its stand-alone selling price. However, when specified criteria are met, variable consideration is allocated to one or more, but not all, performance obligations. This exception could result in the operator avoiding the requirement to estimate certain variable consideration.

The stand-alone selling price is the price at which the operator would sell a promised good or service separately to a grantor. If observable prices are not available, the operator is required to estimate a stand-alone selling price.

Step 5: Recognize revenue

Typically, performance obligations in service concession arrangements meet one of the criteria to recognize revenue over time rather than at a point in time.

The manner in which revenue is recognized over time depends on the measure of progress for each performance obligation.

The operator recognizes revenue when or as it satisfies its obligation by transferring control of the good or service to the grantor. In a service concession arrangement, this is generally over time as the services are provided to the public, or construction of, or maintenance on, the grantor's infrastructure is provided.

A performance obligation is typically satisfied ***over time*** in a service concession arrangement because one of the following criteria is met:

— the grantor (or users of the public service) simultaneously receives and consumes the benefits as the operator performs; or

— the operator's performance creates or enhances an asset that the grantor controls as the asset is created or enhanced.

If control transfers ***over time,*** the operator selects a single method to measure progress for each performance obligation. The method chosen must result in the best depiction of how the operator transfers its service (e.g. costs incurred, time elapsed).

If the over-time criteria are not met, the operator determines the **point in time** that control transfers.

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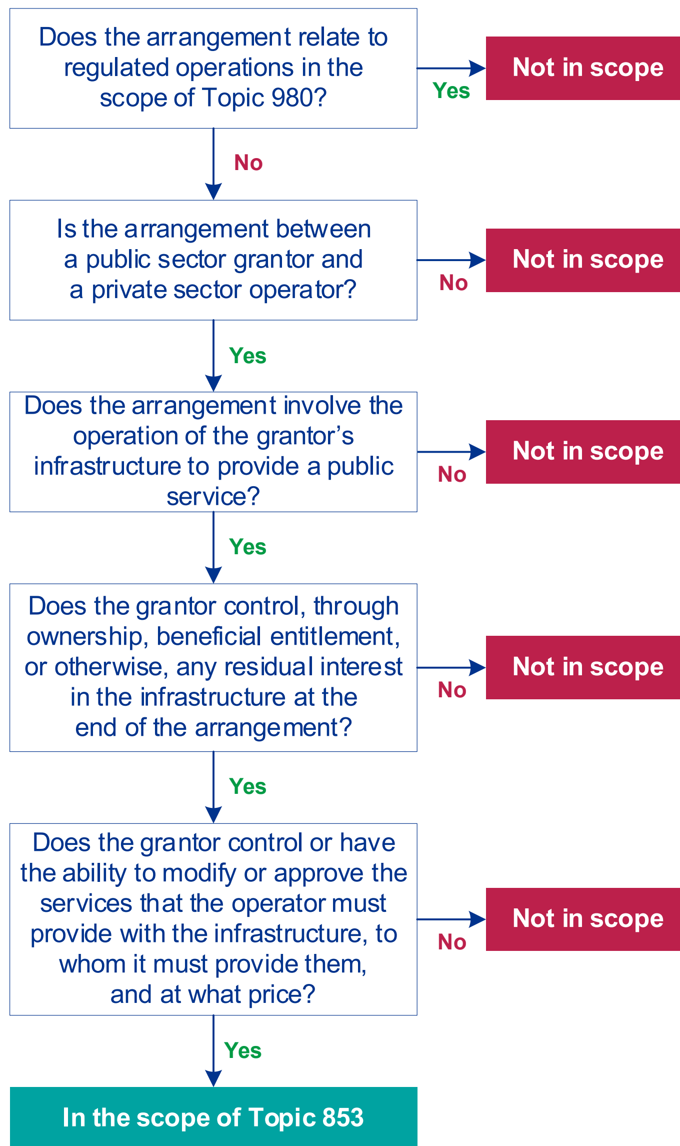
2.1 How the standard works

A service concession arrangement is between a government or public sector entity (grantor) and a private sector entity (operator) where the operator operates the grantor's infrastructure for a period of time.

The following flowchart summarizes the criteria that determine whether an arrangement is in the scope of Topic 853.



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2.2 The parties to the arrangement

Excerpt from ASC 853-10

05-1 A service concession arrangement is an arrangement between a grantor and an operating entity for which the terms provide that the operating entity will operate the grantor's infrastructure (for example, airports, roads, bridges, tunnels, prisons, and hospitals) for a specified period of time. The operating entity may also maintain the infrastructure. The infrastructure already may exist or may be constructed by the operating entity during the period of the service concession arrangement. If the infrastructure already exists, the operating entity may be required to provide significant upgrades as part of the arrangement. Service concession arrangements can take many different forms.

05-2 In a typical service concession arrangement, an operating entity operates and maintains for a period of time the infrastructure of the grantor that will be used to provide a public service. In exchange, the operating entity may receive payments from the grantor to perform those services. Those payments may be paid as the services are performed or over an extended period of time. Additionally, the operating entity may be given a right to charge the public (the third-party users) to use the infrastructure. The arrangement also may contain an unconditional guarantee from the grantor under which the grantor provides a guaranteed minimum payment if the fees collected from the third-party users do not reach a specified minimum threshold. This Topic provides guidance for reporting entities when they enter into a service concession arrangement with a public sector grantor who controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price (which could be set within a specified range). The grantor also controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

> Entities

15-2 The guidance in this Topic applies to the accounting by operating entities of a service concession arrangement under which a public-sector entity grantor enters into a contract with an operating entity to operate the grantor's infrastructure. The operating entity also may provide the construction, upgrading, or maintenance services of the grantor's infrastructure.

15-3 A public-sector entity includes a governmental body or an entity to which the responsibility to provide public service has been delegated. In a service concession arrangement, both of the following conditions exist:

a. The grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
b. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

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15-4 A service concession arrangement that meets the scope criteria in Topic 980 on regulated operations shall apply the guidance in that Topic and not follow the guidance in this Topic.

A service concession arrangement is between a public sector entity (grantor) and a private sector entity (operator) where the operator operates the grantor's infrastructure for a period of time. [853-10-15-2]

The public sector entity can either be: [853-10-15-3]

- a governmental body; or
- an entity to which a governmental body has delegated the responsibility of providing the public service – e.g. a port or airport authority.

The public sector entity is always the customer in an arrangement that is in the scope of Topic 853. This is discussed further in section 3.3.

Question 2.2.10

Are *all* contracts between public sector and private sector entities potentially in the scope of Topic 853?

Interpretive response: No. Regulated operations in the scope of Topic 980 are specifically excluded from the scope of Topic 853. [853-10-15-4]

In addition, we believe there should be a direct link between the arrangement and the public service being provided in order for the arrangement to be in the scope of Topic 853. This is consistent with the basis for conclusions, which reinforces the public service nature of the obligation undertaken by the operator. [ASU 2014-5.BC6]

The following examples highlight the distinction.

- Operator (a private sector entity) has a contract to construct, operate and maintain a hospital on behalf of Grantor (a public sector entity) for 30 years. This arrangement is a public service because the services delivered using the infrastructure are provided to the public.

- Contractor (a private sector entity) has a five-year contract with Grantor (a public sector entity) to provide routine maintenance of a hospital's computer system that holds patient records. We believe this arrangement is not providing a public service as envisaged by Topic 853 because Contractor is not operating the hospital's infrastructure in order to provide a service to the public – i.e. Contractor is supporting the basic operations of the hospital rather than providing the public service itself. In some cases, significant judgment may be required in making this determination.

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2.3 The infrastructure

Examples of a grantor's infrastructure could include the following (not exhaustive):

— airport
— bridge
— hospital
— military base
— prison
— toll road
— parking garage
— tunnel
— water treatment facility.

To be in the scope of Topic 853, the grantor must control any residual interest in the infrastructure at the end of the term of the arrangement. This control can be evidenced through ownership, beneficial entitlement or otherwise. For example, an operator agrees to operate and maintain an existing state highway; the operator never takes ownership of the highway, and at the end of the arrangement, the operation and maintenance revert to the state. [853-10-15-3(b)]

Question 2.3.10

If the operator has legal title to the infrastructure until the end of the arrangement, is the arrangement in the scope of Topic 853?

Background: In some cases, an arrangement requires the operator to build new infrastructure at the start of the arrangement, of which the operator will be the legal owner. In other cases, the operator might acquire the infrastructure, and therefore legal title, from the grantor at the start of the arrangement. In both cases, only at the end of the arrangement does ownership and legal title to the infrastructure pass (back) to the grantor.

Interpretive response: The guidance in Topic 853 is ambiguous in relation to this question.

Yes, in the scope of Topic 853

One view is that the only criteria for determining whether an arrangement is in the scope of Topic 853 are contained in paragraph 853-10-15-3. Those criteria do not differentiate arrangements in which title to the infrastructure is conveyed to the grantor only at the end of the arrangement from arrangements in which title is conveyed to the grantor before the end of the arrangement.

Under this view, ownership of the infrastructure during the term of an arrangement (as evidenced by possession of title) is not considered important in evaluating the economic substance of the arrangement and should not affect whether it is in the scope of Topic 853. The basis for conclusions to ASU 2014-05 states that the arrangement may convey the customary ownership responsibilities over the infrastructure to the operator during the term of the

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arrangement even though the operator does not have control of the infrastructure. [ASU 2014-05.BC11]

Consistent with the conclusion that the operator does not have control of the infrastructure, paragraph 853-10-25-2 prohibits an operator from recognizing infrastructure in the scope of Topic 853 as its PP&E (see section 3.2). That prohibition, when the operator holds the title to the infrastructure during the term of the arrangement, is particularly relevant to this view.

No, not in the scope of Topic 853

An alternative view is that paragraph 853-10-15-2 contains a 'gating' criterion that must be met before an arrangement is evaluated to determine if it meets the criteria in paragraph 853-10-15-3. Paragraph 853-10-15-2 states that Topic 853 applies to arrangements in which an operating entity enters into an agreement with a public sector entity grantor to operate the *grantor's* infrastructure. Paragraph 853-10-15-2 also indicates that the operating entity may provide construction, upgrading or maintenance services of the *grantor's* infrastructure.

Under this view, legal ownership determines which party the infrastructure belongs to. Consequently, if the operator is the legal owner of the infrastructure during the term of the arrangement, the infrastructure is the operator's rather than the grantor's.

This view rejects the assertion that ownership of the infrastructure *during the term of the arrangement* is unimportant in evaluating the economic substance of the arrangement. Control over the *residual interest* in the infrastructure is important in evaluating the economic substance of the arrangement even if the value of the residual interest is expected to be nominal at the end of the arrangement; therefore, it seems logical that ownership of the infrastructure (as evidenced by possession of title) *during the term of the arrangement* would also be important and should not be evaluated differently from the importance of control over the residual interest in the infrastructure. [ASU 2014-05.BC8]

In addition, the basis for conclusions to ASU 2014-05 explicitly states that for arrangements to which Topic 853 was intended to apply, the operating entity does not control *or have title to* the infrastructure under the terms of the arrangement. [ASU 2014-05.BC11]

The debate about whether arrangements in the scope of Topic 853 should be accounted for as leases was in the context of arrangements in which the operator would be a *lessee* if lease accounting were applied. Specifically, the basis for conclusions to ASU 2014-05 discusses the fact that the operator is receiving substantially all of the economic output of the infrastructure during the term of the arrangement. [ASU 2014-05.BC9]

There is a widely-held perspective that for accounting purposes, a party generally cannot be both a lessee and legal owner of the same property. Under this perspective, lease accounting applies to arrangements in which the *lessor* is the legal owner of the property. The difficulties of evaluating whether there is a lease of the infrastructure from the grantor to the operator, as described in the basis for conclusions to ASU 2014-05, do not exist when evaluating whether there is a lease of the infrastructure from the operator to the grantor in which the operator is also providing services to the grantor of operating the infrastructure – i.e. arrangements in which the operator would be a *lessor* if

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lease accounting were applied. Consequently, this view holds that arrangements in which title to the infrastructure is held by the operator during the arrangement term are not the type of arrangements Topic 853 was intended to address.

Conclusion

We believe both views are acceptable given the ambiguity in Topic 853. Operators should apply either view consistently as an accounting policy to all of their arrangements. If an arrangement is not considered to be in the scope of Topic 853 on the basis of the alternative view (i.e. because the operator holds title to the infrastructure during the term of the arrangement), we believe the arrangement likely would contain a lease from the operator to the grantor because the grantor controls the use of the infrastructure; if it does, the operator generally would be required to apply lease accounting as a lessor to the lease component of the arrangement. The operator would apply other standards (e.g. Topic 606) to account for any non-lease goods or services provided in the arrangement. Chapters 4 and 7 in KPMG Handbook, Leases, provide guidance on separating components of a contract and lessor accounting. This publication addresses the accounting when the entity concludes its arrangement is in the scope of Topic 853.

2.4 The services

2.4.10 Types of services

To be in the scope of Topic 853, the operator must *operate* the grantor's infrastructure. However, in addition, it might also construct, upgrade and/or maintain the grantor's infrastructure. [853-10-15-2]

The following are examples of arrangements that include services in addition to operations.

— The operator constructs a toll road, which it then operates and maintains; this is the fact pattern for the illustrative example in chapter 4.
— The operator upgrades a hospital, which it then operates.
— The operator operates and maintains a water treatment facility, which it upgrades partway through the arrangement.

2.4.20 Control over the services and their pricing

To be in the scope of Topic 853, the grantor must have the ability to approve or modify: [853-10-15-3(a)]

— the services that the operator provides with the infrastructure;
— to whom the services are provided; and
— the price charged for the services.

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Question 2.4.10

In what ways could the grantor control the prices charged for services?

Interpretive response: The grantor may control the pricing of the services to be provided using the infrastructure in a variety of ways. We believe reviews or approvals by the grantor required by the contract will generally be sufficient to consider pricing to be controlled by the grantor.

In some cases, particularly when the grantor pays the operator directly, prices (or a price formula) may be set out in the concession agreement. In other cases, prices may be reset periodically by the grantor, or the grantor may give the operator discretion to set unit prices but set a maximum level of revenue or profits that the operator may retain. We believe all of these forms of arrangements are consistent with the pricing criterion in Topic 853.

In some cases, prices may be indexed to, or reset periodically by reference to, a factor that is outside the control of the grantor. For example, prices may be indexed annually to a consumer price index (CPI) or a regulator may establish pricing that is aimed to achieve a targeted rate of return for the operator. Although the grantor cannot control the level of a CPI, the grantor controls the framework in which the price is set. We believe that such price-setting mechanisms constitute price regulation that is consistent with the pricing criterion in Topic 853.

If the pricing is set by the operator with no input or oversight from the grantor, this criterion is not met. As noted, absolute control is not required to meet this requirement, and therefore judgment is required in assessing the terms of the agreement to determine if the grantor has control of the services and their pricing.

2.4.30 Ancillary services

Service concession arrangements may include services that are performed in connection with, but do not relate to the primary public service function of, the grantor's infrastructure – e.g. a hospital gift shop. These ancillary services may not be in the scope of Topic 853.

Question 2.4.20

Are ancillary services in the scope of Topic 853?

Interpretive response: Determining whether an ancillary service provided by the operator under a service concession arrangement is in the scope of Topic 853 is a matter of judgment.

We believe that consideration should be given to the nature of the services performed relative to the grantor's infrastructure. This involves determining, from the grantor's perspective, whether the service is a significant economic

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component of the infrastructure. In making that determination, we believe the following factors are relevant:

— the main public service purpose and primary function of the infrastructure;
— whether the general utility of the infrastructure would change absent the ancillary service; and
— the economic significance of the ancillary service.

Example 2.4.10
Hospital infrastructure – physical therapy wing

Grantor-Hospital enters into a 15-year arrangement with Operator. Under the terms of the arrangement, Operator will operate the physical therapy wing of the hospital. The physical therapy wing is annexed to the main hospital building and occupies about 20% of the total square footage of all hospital buildings.

For the following reasons, Operator concludes that the arrangement is in the scope of Topic 853 (assuming all other criteria are met).

Main purpose and primary function:	The hospital provides primary healthcare services, and the physical therapy treatment is an integral part of the services offered to the public.
General utility:	The general utility of the hospital would be reduced if physical therapy was not offered to patients.
Economic significance:	As an integral and sizeable (occupying 20% of the total square footage of the hospital buildings) component of the healthcare services provided, the physical therapy wing is economically significant.

Example 2.4.20
Hospital infrastructure – cafeteria

Grantor-Hospital enters into a five-year arrangement with Operator. Under the terms of the arrangement, Operator will operate the hospital cafeteria, which represents less than 1% of the revenue generated by the hospital.

For the following reasons, Operator concludes that the arrangement is not in the scope of Topic 853.

Main purpose and primary function:	The hospital provides primary healthcare services, and the cafeteria is for the convenience of employees and patient families rather than an integral part of those services.

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General utility:	The general utility of the hospital would not be reduced if the cafeteria closed.
Economic significance:	The cafeteria is not economically significant to the hospital as a whole.

Question 2.4.30

If an arrangement includes some ancillary components, are those components excluded from the scope of Topic 853?

Interpretive response: No. We believe an arrangement should be considered in its entirety. In general, a single arrangement should not be broken down into a series of units of account to determine whether each unit is itself in the scope of Topic 853.

For example, if the operator in Example 2.4.20 was running the entire hospital, including the cafeteria, then that entire arrangement would be in the scope of Topic 853 (assuming all other criteria are met).

Question 2.4.40

Must the grantor control the pricing of ancillary services for the arrangement to be in the scope of Topic 853?

Interpretive response: No. If an arrangement as a whole includes a component that is ancillary and the operator controls the pricing of the services related to that component, we believe the pricing of the ancillary services is not relevant when applying the pricing test.

For example, if the operator in Example 2.4.20 was running the entire hospital, including the cafeteria, then that entire arrangement would be in the scope of Topic 853 if the grantor controlled pricing over the hospital services provided to the public – even if the operator had full discretion in setting prices in the cafeteria.

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3.4.110 How does the operator account for a nonrefundable up-front payment to the grantor?

3.4.120 How does the operator account for a requirement to pay a percentage of revenue from third-party users to the grantor?

3.4.130 Does the operator account for a significant financing component when the consideration is variable?

3.4.140 What factors identify whether a variable payment relates specifically to the entity's efforts to transfer a distinct good or service?

3.4.150 Can variable consideration be allocated entirely to one performance obligation and zero consideration allocated to another?

3.4.160 What are the key factors to consider when evaluating whether a consistent per transaction or per usage fee meets the variable consideration allocation guidance in a contract?

3.4.170 Must an operator use a single measure of progress for all performance obligations satisfied over time?

3.4.180 What methods can the operator use to measure the progress over time of construction activities?

3.4.190 How do uninstalled materials affect the measure of progress using an input method?

3.4.200 What methods can the operator use to measure the progress over time of operation or maintenance activities?

3.4.210 When does an operator begin to recognize revenue for operations activities?

3.4.220 How does an operator account for a subsequent agreement to expand the grantor's infrastructure?

Examples

3.4.10 Operations activities as a single series

3.4.20 Assessing the nature of significantly expanded operations activities

3.4.30 Uninstalled materials

3.4.40 Expansion of toll road lanes

3.5 Long-lived assets

Questions

3.5.10 How does the operator account for assets that will not revert to the grantor?

3.5.20 How does the operator account for nonessential assets that are affixed to the infrastructure?

Example

3.5.10 Assets that do not revert to the grantor

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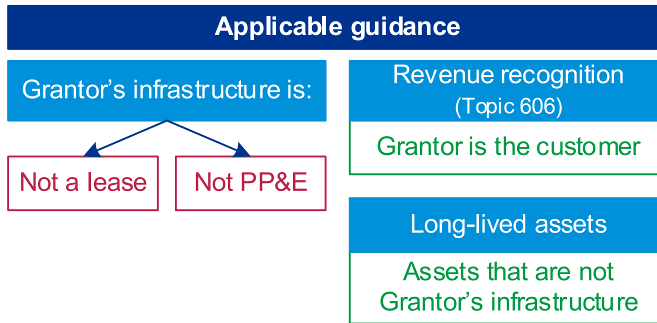
3.1 How the standard works

Topic 853 focuses on the standards that do not apply to service concession arrangements, rather than stating the accounting to be followed. Absent prescribed requirements, the key standard that drives the accounting is the revenue standard (Topic 606) with the grantor as the customer in all cases.

Although Topic 853 specifies that the infrastructure should not be accounted for as PP&E of the operator, certain long-lived assets of the operator will be PP&E because they are not part of the grantor's infrastructure – e.g. surgical equipment, snow removal equipment.



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3.2 Which standards apply

Excerpt from ASC 853-10

> The Operating Entity's Rights over the Infrastructure

25-2 The infrastructure that is the subject of a service concession arrangement within the scope of this Topic shall not be recognized as property, plant, and equipment of the operating entity. Service concession arrangements within the scope of this Topic are not within the scope of Topic 842 on leases.

Topic 853 focuses on the standards that do not apply to service concession arrangements. In particular, the operator does not recognize the grantor's infrastructure as PP&E, and lease accounting does not apply. Instead, the key standard that drives the accounting is the revenue standard (Topic 606).

Topic 853 applies to the accounting by the operator and not to the accounting by the public sector grantor. As a result, a grantor may be the lessor in a lease of the infrastructure to the operator (in applying GASB standards).

3.3 Identifying the customer

Excerpt from ASC 853-10

25-1 An operating entity shall account for revenue from service concession arrangements in accordance with Topic 606 on revenue from contracts with customers. In applying Topic 606, an operating entity shall consider the grantor to be the customer of its operation services in all cases for service concession arrangements within the scope of this Topic. An operating entity shall refer to other Topics to account for the various other aspects of service concession arrangements.

The operator may receive payments from the grantor to perform the public service. Those payments may be paid as the services are performed or over the period of the service concession arrangement. In addition or instead, the operator may be given a right to charge the public (third-party users) to use the infrastructure. The arrangement may also contain an unconditional guarantee under which the grantor provides a guaranteed minimum payment if the fees collected from third-party users do not reach a specified minimum threshold.

Identifying the grantor as the customer in a service concession arrangement affects revenue recognition and other aspects of the accounting for the arrangement. For example, treating the grantor as the customer affects the accounting for up-front payments made by the operator to the grantor and may affect the accounting for individual elements of the arrangement – e.g. revenue recognition for constructing and operating the infrastructure, and for performing required major maintenance.

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Question 3.3.10

Who is the customer in a service concession arrangement?

Interpretive response: In all cases, the grantor is the customer in a service concession arrangement. [853-10-25-1]

Service concession arrangements include operation services (including routine maintenance) performed by the operator and may include construction and upgrade services.

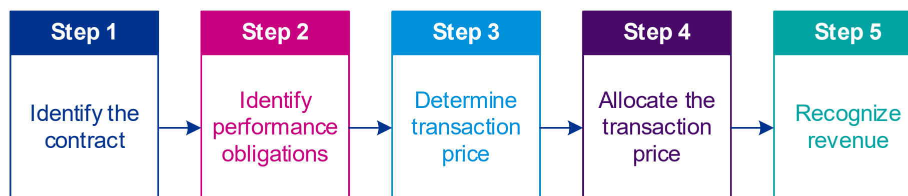
— **Operation services.** The grantor is considered the customer because the grantor controls or has the ability to modify or approve the services provided with its infrastructure and the price of the services. Because the operator does not control the use of the infrastructure and the operating services provided, the operator's customer is considered the grantor rather than the third parties who receive the public service – e.g. drivers using a toll road. [ASU 2017-10.BC7]

— **Construction services.** The grantor is considered the customer because the construction services create or enhance an asset that the grantor controls. The third-party users are not the customer. [ASU 2017-10.BC6]

3.4 Revenue recognition

This section discusses how the operator in a service concession arrangement recognizes revenue. It touches on some of the key issues likely to affect the accounting by operators. For an in-depth discussion of Topic 606, see KPMG Handbook, Revenue recognition.

The discussion follows the five steps in the revenue recognition model. These concepts are illustrated in the examples in chapter 4 (toll road) and chapter 5 (bridge toll – operations services only).



3.4.10 Step 1: Identify the contract

In addition to the discussion in this section, read more in chapter 3 of KPMG Handbook, Revenue recognition ➢

We do not expect identifying the contract to cause significant issues in a service concession arrangement. Typically, the process underpinning the arrangement is highly formalized and the parties take considerable care with the drafting. Therefore, identifying the contract will not usually be difficult.

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However, determining the contract term may be more challenging (as discussed below).

Further, when an operator enters into multiple contracts with the same grantor, it needs to determine if in substance those arrangements should be accounted for as a single contract. Determining when multiple contracts should be combined requires judgment and consideration of both the form and the substance of an arrangement.

In summary, in applying Topic 606 the contract between the operator and the grantor (customer) must be legally enforceable and meet all of the following criteria: [606-10-25-1]

— each party has approved the contract and is committed to perform;
— each party can identify the other's rights and obligations;
— the payment terms can be identified;
— the contract has commercial substance; and
— it is probable that the operator will collect substantially all of the consideration to which it will be entitled.

Determining the contract term

When a contract exists under Topic 606, the revenue model is applied to the duration of that contract (i.e. the contractual period) in which the parties to the contract have presently enforceable rights and obligations. The contract term is not always the same as a stated term in a contract. Determining the contract term is important because it may affect the following, for example:

— the measurement (Step 3, see section 3.4.30) and allocation (Step 4, see section 3.4.40) of the transaction price;
— the timing of revenue recognition (Step 5, see section 3.4.50); and
— contract modifications (see section 3.4.60).

Determining the contract term typically is not difficult when a contract has a stated duration and neither party has the unilateral right to cancel the contract. In contrast, it can be more challenging when either party has a cancellation right. For example, consider a contract with a 30-year stated term that provides the public sector grantor the right to cancel the arrangement at the end of Year 10. The contract term of this arrangement would be 10 years if there is no substantive penalty in the contract after Year 10 in the event the public sector grantor exercises its cancellation right.

3.4.20 Step 2: Identify performance obligations

In addition to the discussion in this section, read more in chapter 4 of KPMG Handbook, Revenue recognition ⮚

Overview

Step 2 entails identifying the promised goods or services in the contract with a customer, and then determining if they are distinct or are bundled with other goods and services. Therefore, the first task in applying Step 2 is to identify the goods or services promised in a contract with a customer.

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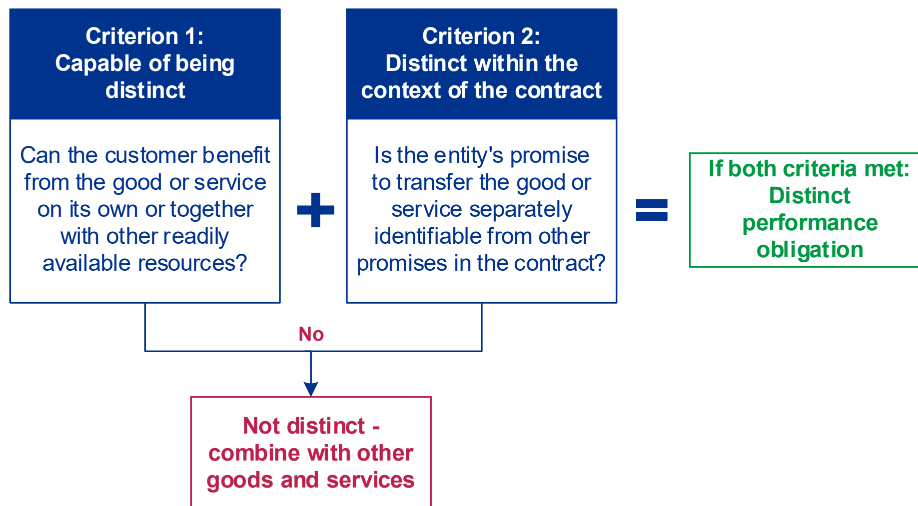
In the context of a service concession arrangement, the promised services always include running operations, and may also include construction, upgrading and/or maintaining the grantor's infrastructure; they might also include ancillary services (see Question 2.4.30). Part of identifying performance obligations is determining whether the nature of the operator's promise is to provide the specified good or service itself (in which case the operator is a principal) or to arrange for it to be provided to the grantor by another party or parties (in which case the operator is an agent). This is discussed further in chapter 9 of KPMG Handbook, Revenue recognition. [606-10-25-18, 55-36]

After the operator has identified the promised goods or services in the contract, it evaluates each promise to determine whether it constitutes its own performance obligation or should be combined with other promises to form a performance obligation. The performance obligation is the 'unit of account' for recognizing revenue.

A performance obligation is one of the following: [606-10-25-14 – 25-15]

- a good or service that is 'distinct' on its own;
- a bundle of goods or services that are not 'distinct' on their own but are as a group; or
- a series of distinct goods or services:
  - that are substantially the same;
  - that are satisfied over time; and
  - for which the same method would be used to measure progress toward satisfaction of each distinct service.

A promised good or service is distinct if both of the following criteria are met. [606-10-25-19]



For a promised good or service to be distinct, it has to be both capable of being distinct and distinct within the context of the contract. A good or service is distinct within the context of the contract when it is separately identifiable. The objective in applying this criterion is to determine whether the nature of the entity's promise is to transfer (a) multiple promised goods or services or (b) a combined item that comprises multiple promised goods or services. [606-10-25-19, ASU 2016-09.BC29]

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Consistent with the 'capable of being distinct' analysis, contractual restrictions or requirements (e.g. to use the entity's services rather than an alternative provider's services) do not affect the 'distinct within the context of the contract' evaluation. This is discussed further in section 4.3.40 of KPMG Handbook, Revenue recognition. [606-10-55-150F]

Construction activities

Often a service concession arrangement includes construction-related activities, either to build new infrastructure or to improve existing infrastructure. In many cases, the construction-related activities occur at the start of the arrangement, but in other cases they might be scheduled to occur at a later stage – e.g. an obligation to build new lanes in Year 15 of a 30-year toll road arrangement.

Question 3.4.10
Is a requirement to construct infrastructure a single performance obligation?

Interpretive response: It depends. Operators need to determine whether goods and services (e.g. engineering versus construction services) are capable of being distinct, and distinct within the context of the contract. If so, separate units of account may result. [606-10-25-19]

It is typical in construction contracts that the finished deliverable consists of a number of subcomponents that normally provide benefit to the customer on their own or together with other readily available resources. Therefore, evaluating whether a promised good or service is distinct will likely depend more on whether it is distinct within the context of the contract (i.e. criterion 2).

The objective when assessing whether an entity's promises to transfer goods or services are distinct within the context of the contract is to determine whether the nature of the promise is to transfer each of those goods or services individually, or whether the promise is to transfer a combined item or items to which promised goods or services are inputs. [606-10-25-21]

The following indicators are designed to assist in evaluating whether two or more promises to transfer goods or services to a customer are not separately identifiable – i.e. not distinct within the context of the contract and therefore not separate performance obligations. [606-10-25-21]

- Significant integration service: the entity is responsible for ensuring the individual goods or services are incorporated into the combined output.
- Significant modification or customization: the functionality of the customized good or service is different from the individual inputs used to create the combined item.
- Highly interdependent or interrelated: when the goods or services are so highly dependent on or highly interrelated with other goods or services that the customer could not choose to purchase one good or service without significantly affecting the other promised goods or services.

Often, goods and services to be provided under a construction contract are not separately identifiable or distinct from the other promises in the contract.

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Instead, the nature of the promise in the contract is for the contractor to provide a combined item for which the customer has contracted; and there is often a significant integration service by combining all of the goods and services in the contract into the combined item. However, there may be facts and circumstances where the design and construction of a project are separately identifiable (see Question 3.4.20).

If it is determined that a contract contains multiple performance obligations, the operator allocates the transaction price to each performance obligation generally in proportion to its stand-alone selling price (see section 3.4.40).

Question 3.4.20

Is the design of infrastructure a separate performance obligation?

Interpretive response: It depends. Some construction contracts require an operator to undertake efforts in up-front engineering and design (E&D) to ensure the infrastructure meets the needs of the customer.

The TRG agreed that the fundamental issue when characterizing nonrecurring engineering activities is determining whether the activities transfer control of a good or service to the customer for which the operator is entitled to consideration. [TRG 11-15.46]

Typically, if the operator retains the rights to the E&D output, such as the design or IP it produces, then no goods or services associated with these activities are transferred to the customer. In this case, the activities are fulfillment activities related to the construction of the infrastructure.

If the rights to the E&D output are transferred to the customer, the operator evaluates whether that promised service is distinct from the construction of the infrastructure. This determination largely depends on whether the E&D and the construction services significantly affect each other.

A design that is complex or iterative (i.e. it changes throughout construction) may not be a separate performance obligation because the operator is providing a significant integration service by combining the inputs from the E&D and the construction activities to provide the combined output of the infrastructure. However, E&D output that is non-complex for which the customer retains the rights, may not be significantly affected by the construction and therefore be a separate performance obligation.

Operation and maintenance activities

In addition to running the infrastructure's operations, in almost all cases a service concession arrangement includes a requirement for the operator to carry out maintenance activities. These activities may be routine and indistinguishable from operations and not specifically identified in the contract, or major maintenance projects that are specifically identified in the contract.

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Question 3.4.30

Are operations activities a service of standing ready?

Interpretive response: Usually, yes. The TRG agreed on scenarios in which the nature of the entity's promise is to stand-ready for a period of time rather than provide the goods or services underlying the obligation. The examples of stand-ready obligations discussed by the TRG included a promise to make a good or service available to the customer continuously. [TRG 01-15.16]

The TRG agreed that an obligation to provide an unknown quantity of goods or services over the contract term may be a strong indicator that the nature of the promise is to stand-ready to provide goods or services. [TRG 01-15.16]

In a service concession arrangement, the operator is typically obligated to provide the public with continuous access to the infrastructure. This obligation usually does not diminish each time the public uses the facilities during the time period.

However, this conclusion does not necessarily mean that the revenue will be recognized on a straight-line basis (see section 3.4.50).

Question 3.4.40

Are maintenance activities distinct from operations?

Interpretive response: It depends. In many cases, maintenance activities are indistinguishable from operations – comprising an indeterminate number of small acts to keep the infrastructure in good working order. In other cases, maintenance comprises larger projects, which may or may not be specifically identified in the contract.

Indeterminate number of small acts

To the extent that maintenance comprises an indeterminate number of small acts, we believe maintenance is not distinct from operations. Examples might include condition monitoring, remote monitoring by an expert center, and the repair of infrastructure components. These small acts comprise a single (stand-ready) performance obligation, together with operations, and the next step is to determine whether the series guidance applies (see Question 3.4.50).

Planned major maintenance

Planned major maintenance can be distinguished from routine operations – e.g. the periodic resurfacing of a toll road, or the refurbishment of major components. In some cases, the contract specifies precisely when the maintenance should be carried out (e.g. resurface a road every nine years) and in other cases it is on a when-and-if-needed basis (e.g. resurface a road if it deteriorates to a certain point). In situations like these, we believe the maintenance is likely distinct from operations.

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Unless specifically identified in the contract, the operator needs to apply judgment in determining which types of maintenance are distinct from operations. One factor to consider is that routine maintenance (as opposed to planned major maintenance) usually does not increase the utility or significantly extend the life of the grantor's infrastructure.

If maintenance activities are distinct from operations, the operator also evaluates whether the maintenance activities are distinct from one another.

— If the contract specifies a quantity of services or precisely when the maintenance should be carried out (e.g. resurface a road every nine years), the nature of the promise may be to deliver a specified quantity of services. The operator may conclude that each maintenance service is distinct as the customer can benefit from each service on its own, and each service is separately identifiable from the others because one does not significantly affect, modify or customize another. The operator accounts for the distinct services as separate performance obligations unless they represent a series of distinct services that will be accounted for as a single performance obligation (see Question 3.4.60).

— Some contracts may specify certain maintenance activities but nonetheless the operator may determine that these services are not distinct from one another because the operator is providing a significant integration service of all of the activities that are integral to maintaining the infrastructure each day. These activities may include some specified and planned activities as well as unplanned repairs or replacements and routine maintenance. The various maintenance activities are inputs to the combined output, which is a single maintenance service performance obligation.

— If the contract requires maintenance on a when-and-if-needed basis (e.g. resurface a road if it deteriorates to a certain point), the operator may conclude it is providing a single stand-ready maintenance service because the nature of the promise is to deliver an unknown quantity of the underlying maintenance service.

For a discussion of replacement assets, see section 3.5.

Question 3.4.50

Are operations activities, including any nondistinct maintenance activities, a series?

Background: Applying the guidance in Question 3.4.30, an operator concludes that it stands ready to provide the service of operations. Applying the guidance in Question 3.4.40, this includes routine maintenance.

Interpretive response: Generally, yes. If a performance obligation is a stand-ready obligation, it qualifies as a series.

For a service obligation to be a series of distinct time periods, there needs to be multiple time periods within the overall performance obligation that:

— are distinct from each other;
— are substantially the same;

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— are satisfied over time; and
— have the same pattern of transfer to the customer – e.g. the operator would measure progress toward complete satisfaction of each distinct service period obligation using the same measure of progress.

Typically, operations activities, including any nondistinct maintenance activities, meet these criteria. This conclusion and underlying rationale is consistent with examples considered by the TRG, and the hotel manager example in Topic 606 (Example 12A). In each of those examples, the nature of the entity's promise was the same integrated or stand-ready service each period and deemed to be substantially the same, distinct and have the same pattern of transfer.

Example 3.4.10
Operations activities as a single series

Operator enters into a 20-year service concession arrangement with Grantor, whereby Operator agrees to operate and maintain an existing public toll road. The arrangement is in the scope of Topic 853. Operator assesses whether the series guidance is met.

Distinct

Each service period (e.g. each month, or even each day) within the term of the contract benefits Grantor on its own, meaning that each service period is capable of being distinct. In addition, Operator's promise to make the toll road available in one service period is separately identifiable from those service periods preceding and following it. This means that no one period of service is essential to, dependent on, or significantly modifies or customizes another period of service.

Substantially the same

Operator will perform various services during each period, such as cleaning, operating the toll booths, repairing potholes and clearing snow. Even though the mix and quantity of activities that Operator will perform each distinct period may differ, the nature of Operator's promise each period is substantially the same.

Satisfied over time

Because the nature of Operator's promise is a stand-ready obligation, rather than to provide specified goods or perform specified activities, Grantor consumes and receives benefit from having access to the toll road throughout the overall concession period. Therefore, Operator's promise to perform each service period is satisfied over time.

Same pattern of transfer

Regardless of the measure of progress selected for the stand-ready obligation, we would expect the same measure of progress to be applied to each distinct service period. For a discussion of the appropriate measure of progress for stand-ready obligations, see Question 3.4.200.

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Conclusion

Because all of the criteria in the series guidance are met, the performance obligation is a series.

Question 3.4.60
Are distinct maintenance activities a series?

Background: Applying the guidance in Question 3.4.40, an operator concludes that its obligations to carry out planned major maintenance periodically are distinct from the operating activities and from each other.

Interpretive response: For the distinct maintenance activities to be a series (i.e. accounted for as a single performance obligation): [606-10-25-14 – 25-15]

— the activities need to be substantially the same;
— each instance of planned major maintenance needs to be satisfied over time; and
— in each case the pattern of transfer to the customer needs to be the same – e.g. the operator would measure progress toward complete satisfaction of each distinct service period obligation using the same measure of progress.

Whether these criteria are met will depend on the specific facts and circumstances. In the toll road example in Question 3.4.40, if the operator's obligation is to resurface a road every nine years, the criteria will likely be met. This is because:

— each distinct maintenance activity is substantially the same;
— the services will transfer to the customer over time because the grantor controls the asset being enhanced by the operator's performance; and
— the measure of progress for each distinct maintenance service will be the same – e.g. cost-to-cost measure of progress for each service.

Changing the example in the background, if the operator had instead determined that its obligation was to provide stand-ready maintenance and the activities were *not distinct* from one another, the series criteria would be applied to the time increments within the stand-ready period rather than the underlying activity. In this scenario, the analysis is similar to Question 3.4.50 and the series criteria will also likely be met. Judgment is required to determine the measure of progress that best depicts transfer of control of the services provided by the operator. For example, an input measure of progress (e.g. costs incurred) will likely depict transfer of control for planned major maintenance obligations. A time-based measure of progress would not appropriately depict transfer of control, particularly when there are long periods of time of inactivity in between the maintenance activities. For a discussion about measures of progress, see Question 3.4.200.

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Question 3.4.70

In assessing whether operations activities are a series, what is the effect of variable consideration?

Interpretive response: The presence of variable consideration does not affect whether the series guidance applies. However, application of the series guidance to a group of distinct goods or services can affect the allocation of variable consideration, accounting for contract modifications and disclosure requirements. For further discussion, see section 3.4.40 (Allocate the transaction price).

Question 3.4.80

Does an operator need to carry out the same activities in each time increment for a distinct service period to be considered substantially the same?

Interpretive response: No. In some cases, the operations activities (including any nondistinct maintenance) are not substantially the same throughout the term of the contract. However, this assessment is not based simply on the level of activities each month or each day.

In general, when evaluating whether a distinct time increment (e.g. day/month/year) in a stand-ready or single continuous service are substantially the same, the relevant analysis is whether the *nature* of the promise is the same each day – and not whether the activities performed to fulfill that promise are substantially the same. When the activities are inputs into the combined output, they are essentially fulfillment activities of the entity – i.e. they are not distinct.

The TRG agreed that when the nature of the promise is to stand-ready or provide a single service for a period of time, the underlying activities could vary significantly from day to day, but the nature of the promise does not change from day to day. The TRG specifically discussed arrangements such as hotel management and IT outsourcing that had integrated activities that formed a single performance obligation of which the nature of the promise was a single service to the customer each day. [TRG 07-15.39]

However, in some cases in a service concession arrangement, the nature of the promise may change following a significant expansion. For example, an operator may be obligated to significantly expand the capacity of a hospital halfway through the term of the arrangement. If the expansion is significant such that the operations themselves are significantly expanded, we believe the nature of the operations activities may be changed after the expansion. This assessment is explored in Example 3.4.20.

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Example 3.4.20

Assessing the nature of significantly expanded operations activities

Grantor-Hospital enters into a 15-year arrangement with Operator. Under the terms of the arrangement, Operator is obligated to operate the hospital on a continuous basis during the 15-year contract period. This obligation does not diminish each time a member of the public uses the facilities during that period. Consistent with Question 3.4.30 and the facts, Operator determined that the nature of its promise is to stand-ready to provide the service of operations.

Partway through the 15-year contract period, Operator is required to build and operate a Level I trauma center; previously the hospital had no trauma center. The new trauma center is intended to be a comprehensive regional resource, which will significantly expand the hospital's capabilities.

Operator determines that building the trauma center is a separate performance obligation that is distinct from the existing and future operations services. Operator evaluates the nature of its promise associated with the operations services to determine whether the additional operations services for the trauma center are:

- new required activities associated with one overall stand-ready obligation to operate the hospital – i.e. there is one stand-ready obligation after building the trauma center; or
- a distinct stand-ready obligation separate from the existing stand-ready obligation to operate the hospital – i.e. there are two stand-ready obligations after building the trauma center.

This determination requires judgment and consideration of the specific facts of an arrangement. Factors that may indicate the operation of the trauma center is an activity of the overall stand-ready obligation to operate the hospital include the following.

- The obligation to operate the trauma center and the existing hospital are co-terminus – i.e. the remaining service period term is the same.
- The activities to operate the hospital and the trauma center are similar – e.g. cleaning, monitoring and maintaining the equipment, scheduling patient care and operations, and billing.
- The activities to operate the hospital and the trauma center are highly interrelated – e.g. overhead costs benefit both services, efficiencies are gained through the provision of both services, best practices and learnings from execution of one operation service benefits the other operation service.
- The payment terms suggest the customer believes it is paying for a single service – e.g. payment for operation of both the hospital and the trauma center are on a per-patient-per-day basis.

In addition to the factors above, Operator evaluates whether the addition of the trauma center will significantly change its operations services, requiring a different type of patient care, different equipment, and the maintenance of the hospital's trauma accreditation. Operator evaluates the facts of the

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arrangement, considering the factors noted above and the degree of integration between the existing hospital operations services and the new trauma center operations services. Based on an analysis of the facts, Operator determines whether the trauma center operations services change the nature of the existing stand-ready obligation or create a stand-ready obligation distinct from the existing obligation.

3.4.30 Step 3: Determine transaction price

In addition to the discussion in this section, read more in chapter 5 of KPMG Handbook, Revenue recognition ➤

Elements of transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled for providing goods or services to the customer. It is initially estimated at contract inception and then, if it's variable consideration, updated each reporting period. The transaction price includes the amounts to which the entity has rights under the contract, which could include consideration to be paid by the customer (grantor), the end users of the public services or third parties. [606-10-32-2]

The transaction price consists of fixed cash consideration, estimated variable consideration and the fair value of noncash consideration. These amounts are adjusted for the time value of money if there is a significant financing component in the contract. Lastly, the transaction price may be reduced by any consideration payable by the entity to the customer. [606-10-32-2 – 32-3]

Variable consideration

Variable consideration, like fixed consideration, is part of the transaction price. An entity estimates the amount of variable consideration at contract inception and each reporting period until the amount is known – unless the guidance related to the direct allocation of variable consideration is met (see section 3.4.40). The consideration in a service concession arrangement is often at least partly variable – e.g. based on toll road usage, or the number of medical procedures performed.

Variable consideration is the amount to which the entity expects to be entitled, which is estimated using an expected-value or most-likely-amount method – whichever one the entity expects to better predict the amount of consideration to which it will be entitled. [606-10-32-8]

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Expected value	The entity considers the probability-weighted amounts for a range of possible consideration outcomes. This may be an appropriate estimate of the amount of variable consideration if the entity has a large number of contracts with similar characteristics, and/or the contract has a large number of possible outcomes.
Most likely amount	The entity considers the single most likely amount from a range of possible consideration outcomes. This may be an appropriate estimate of the amount of variable consideration if the contract has only two (or perhaps a few) possible outcomes -- e.g. the operator will either achieve a performance bonus or it will not.

Lastly, the entity applies the variable consideration constraint so that variable consideration is included in the transaction price only to the extent it is probable that a subsequent change in estimate will not result in a significant revenue reversal compared to the cumulative revenue recognized under the contract. [606-10-32-11]

Question 3.4.90

Are service level agreements that could result in refunds or credits to the grantor variable consideration?

Interpretive response: Yes. Credits or refunds to the grantor that result from the failure of the operator to meet certain standards under the contract are adjustments to the transaction price (reductions of revenue).

Therefore, as explained further in section 3.4.40, they may need to be estimated at the outset of the arrangement in the same manner as any other variable consideration – i.e. using a most-likely-amount or expected-value method. Those estimates are then subject to the variable consideration constraint. The estimates, including the effect of the constraint on those estimates, are revised and the transaction price adjusted over the performance period of the contract.

Question 3.4.100

Are service level agreements that could result in refunds or credits to end consumers variable consideration?

Interpretive response: Yes. We believe the accounting outlined in Question 3.4.90 applies even if the refund is to the end user of the infrastructure (end consumer) rather than the grantor directly.

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Consideration payable to the grantor

In some service concession arrangements, the operator may be required to pay an amount up-front to the grantor or pay the grantor a percentage of the amounts received from third-party users of the infrastructure.

Question 3.4.110

How does the operator account for a nonrefundable up-front payment to the grantor?

Background: In some service concession arrangements, the operator may be required to pay to the grantor an amount up-front as consideration for obtaining the concession. This often occurs in service concessions that do not require up-front construction or renovation by the operator.

Interpretive response: When the up-front payment is not in exchange for a distinct good or service, it is accounted for as a reduction of the transaction price. If the payment meets the definition of an asset and is recoverable from future cash flows from the grantor or the end users of the public service, the payment is capitalized and amortized as a reduction of revenue over the period of expected cash flows from the customer. This amortization period could include only the legally enforceable contract period or could also include anticipated renewals depending on the customer contracts to which the payment relates.

If capitalized, we believe the resulting asset may be presented on the balance sheet in one of the following ways:

— **Other asset.** When the operator makes an up-front payment to the grantor, it has not yet transferred goods or services, and therefore the definition of a contract asset is not met. As a result, the asset is presented separately in other assets or another appropriate financial statement line item.

— **Contract asset.** We believe it is also acceptable to present the asset as a contract asset (or net contract liability) when it relates only to the current legally enforceable contract – i.e. when the amortization period does not include anticipated contracts or renewals. This is because a contract asset or contract liability reflects the relationship between the entity's performance and the customer's payments for a current contract.

For a discussion of the presentation of contract assets and contract liabilities under Topic 606, see section 6.3.

Question 3.4.120

How does the operator account for a requirement to pay a percentage of revenue from third-party users to the grantor?

Background: In some service concession arrangements, the operator may be required to pay to the grantor a percentage of the amounts received from third-

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party users of the infrastructure. For example, for every $10 collected from users, $1 is passed to the grantor. Such payments are not consideration for a distinct good or service.

Interpretive response: Such amounts are accounted for as variable consideration and included in the transaction price at contract inception. Using the example in the background, in effect this means that the operator earns $9 from the third-party users and not $10. [606-10-32-25, 32-27]

Significant financing component in a contract

A contract may have a financing component when either: [606-10-32-16]

- the promised amount of consideration differs from the cash selling price of the promised goods or services; or
- there is a significant timing difference between when control of the goods or services is transferred to the customer and when the customer pays for the goods or services.

When a contract includes a significant financing component as a result of an advance payment to the operator, the grantor is essentially providing financing to the operator. As a result, the operator increases the amount of revenue recognized from the contract and increases interest expense by a corresponding amount. Conversely, when a contract includes a significant financing component because the operator makes an up-front payment to the grantor, the operator is providing financing to the grantor. As a result, the operator decreases the amount of revenue recognized and increases interest income by a corresponding amount. [606-10-32-20]

The effects of a significant financing component are reflected in the operator's estimate of the transaction price as either an increase (for advance payments) or a decrease (for payments in arrears or up-front payments to the grantor) using a discount rate that reflects the credit standing of the party receiving the financing – i.e. the operator's credit standing for advance payments and the grantor's credit standing for payments in arrears or up-front payments to the grantor. [606-10-32-19]

Determining the effect of the time value of money for a contract with a significant financing component can be complex for long-term or multiple-element arrangements. In these contracts:

- goods or services are transferred at various points in time;
- cash payments may be made throughout the contract; and
- there may be a change in the estimated timing of the transfer of goods or services to the customer.

However, a contract does not contain a financing component if any of the following factors exist. [606-10-32-17]

- The operator receives an advance payment, and the timing of the transfer of goods or services to the customer is at the discretion of the grantor.
- A substantial portion of the consideration is variable, and the amount or timing of the consideration is outside the grantor's and operator's control.

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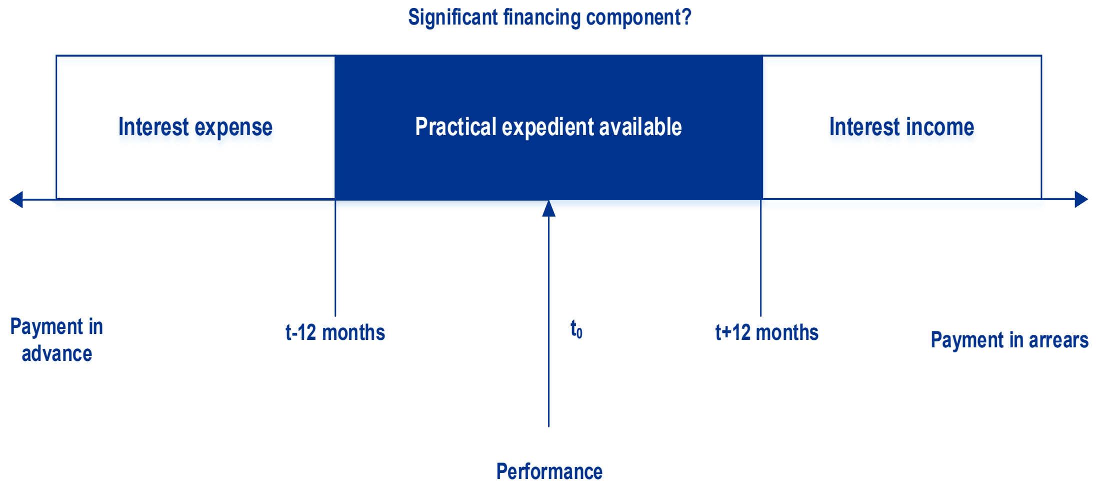
— The difference between the amount of promised consideration and the cash selling price of the promised goods or services arises for nonfinance reasons.

A practical expedient applies (and the financing is not accounted for) if the period between performance and payment for that performance is one year or less. [606-10-32-18]



Question 3.4.130

Does the operator account for a significant financing component when the consideration is variable?

Interpretive response: It depends. If a *substantial* portion of the consideration is variable and outside the control of both the operator and the grantor, there is no significant financing component. [606-10-32-17(b)]

In some service concession arrangements, the test will clearly be met – e.g. a toll road funded entirely by driver tolls. However, in other cases with some element of fixed consideration, judgment may be required in determining whether the arrangement contains a significant financing component. When fixed consideration results in the identification of a significant financing component but the arrangement also contains significant variable consideration, the accounting for the significant financing component may be complex and require significant judgment.

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3.4.40 Step 4: Allocate the transaction price

In addition to the discussion in this section, read more in chapter 6 of KPMG Handbook, Revenue recognition ➤

Determine stand-alone selling prices

The first stage in applying Step 4 is to determine each performance obligation's stand-alone selling price, which is the price at which an entity would sell the good or service separately to a customer. [606-10-32-32]

The best evidence is an observable price from stand-alone sales of the performance obligation to similarly situated customers. If the stand-alone selling price is not directly observable, the entity estimates the amount using a suitable method that maximizes the use of observable inputs. The following are examples. [606-10-32-32 – 32-34]

- **Adjusted market assessment approach.** Evaluate the market in which the performance obligation is sold and estimate the price that customers in the market would be willing to pay.
- **Expected cost plus a margin approach.** Forecast the expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.

In limited circumstances, an entity may estimate the amount using the residual approach. However, we do not expect this approach to be relevant to most service concession arrangements. [606-10-32-34(c)]

Allocate the transaction price

At contract inception, the transaction price is generally allocated to each performance obligation on the basis of relative stand-alone selling prices – i.e. the general allocation model. In most cases, an allocation based on stand-alone selling prices faithfully depicts the amount of consideration to which an entity is entitled for satisfying a performance obligation, and the relative stand-alone selling price allocation should be the general model for allocating the transaction price. [606-10-33-31]

Changes in variable consideration

An entity's estimate of variable consideration frequently changes after contract inception. To account for conditions that exist at each reporting date (and changes in conditions during the reporting period), an entity updates its estimates of variable consideration and amounts of that variable consideration that should be constrained throughout the contract. Any change in the estimate or amount constrained results in a change to the contract's transaction price. [606-10-32-14]

Variable consideration allocation exception

In general, variable consideration is allocated under the general allocation model similar to the rest of the transaction price. However, in some situations variable consideration can be allocated entirely to one or more, but not all distinct goods or services in a contract. In a service concession arrangement, this guidance may apply when the operator is only providing operation services that are determined to be a single performance obligation that is a series of distinct services (see section 3.4.20). [606-10-32-39]

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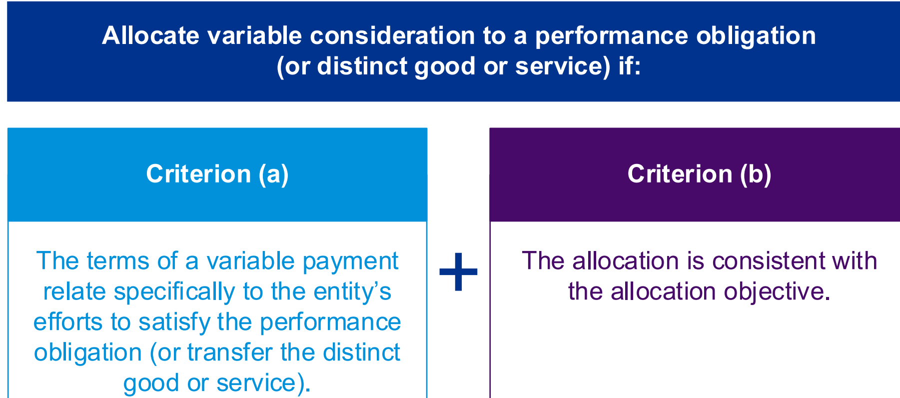
This guidance applies when both of the following criteria are met. [606-10-32-40]



When the direct allocation of variable consideration guidance is met, the variable amount (and subsequent changes to that amount) is (are) allocated entirely to the services within the reporting period and no estimation of these fees is required for purposes of recognizing revenue. Example 5 in chapter 5 illustrates how this might work in a service concession arrangement. [606-10-32-40]

The allocation objective is to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled for transferring the promised goods or services to the customer. [606-10-32-28]

Assessing criterion (a) is often relatively straightforward because the contract terms specifically identify how the variable amounts are resolved and the transfer of goods or services required to earn that amount. For example, tolls earned by operating a toll road are variable consideration that relate specifically to the operation of the toll road. However, when variable consideration is contingent on providing multiple distinct goods or services (including multiple distinct service periods) or the terms of the payment are dependent on prior periods (e.g. pricing depends on volume and service in the past), the variable amounts typically relate to all of the distinct goods or services required to earn that consideration and the criterion is not met. [606-10-32-40(a)]

When assessing criterion (b), an entity evaluates whether the allocation objective is met for the entire contract – i.e. not just the distinct goods or services to which the variable consideration relates. For example, in a toll road contract that includes only tolls as consideration, the allocation objective is not met by allocating the tolls entirely to the operations services and allocating no consideration to construction services. An entity could use stand-alone selling prices to support the reasonableness of the allocation, but it is not required that the allocation be based on stand-alone selling prices to meet the allocation objective. As a result, significant judgment is required to evaluate when this criterion is met. [606-10-32-40(b)]

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Question 3.4.140

What factors identify whether a variable payment relates specifically to the entity's efforts to transfer a distinct good or service?

Background: The first criterion to allocate variable consideration to one or more, but not all, distinct goods or services states, "The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service)." [606-10-32-40(a)]

Interpretive response: This criterion is generally met when the variability is solely attributed to and resolved as a result of the transfer of one or more but not all goods or services. This is the case when the amount paid by the customer is independent of the transfer of past or future goods or services (including efforts in previous periods). In other words, the amount paid is resolved entirely as a result of transferring one or more, but not all, goods or services.

In contrast, this criterion is not met when:

- the variable amount could change based on the transfer of future goods or services. This would mean the variable amounts are attributable to both the current and future goods or services; or
- the variable amount depends on distinct goods or services previously transferred. This would mean that the variable amounts are attributable to not only the final good or service but all of the goods or services transferred before it.

If this criterion is met, the entity also evaluates whether the other criterion (i.e. meeting the allocation objective) is met to allocate the variable amounts entirely to that distinct good or service.

Question 3.4.150

Can variable consideration be allocated entirely to one performance obligation and zero consideration allocated to another?

Interpretive response: No. Allocating zero consideration in a contract to a performance obligation would not be consistent with the allocation objective. This view is consistent with the FASB view that an allocation of the transaction price should not result in an allocation of zero to a performance obligation because, by definition, a distinct good or service has value to the customer on a stand-alone basis. [ASU 2014-09.BC273]

To meet the allocation objective and therefore criterion (b) of the variable consideration allocation exception, an entity considers all payment terms and performance obligations in the contract. Therefore, the evaluation could become more complex when there are multiple performance obligations.

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For example, an entity might have a contract with two performance obligations (e.g. construction and operations services) but the only fee in the contract is a variable fee based on usage of one of the performance obligations (e.g. fees charged per hospital stay or toll road charges which relate to the operations services). In this example, it would not be appropriate to allocate the variable amounts entirely to only the one performance obligation on which the variable amount is based.

Question 3.4.160

What are the key factors to consider when evaluating whether a consistent per transaction or per usage fee meets the variable consideration allocation guidance in a contract?

Interpretive response: When a performance obligation comprises a series of distinct service periods (e.g. a series of distinct daily, monthly or annual periods of operations services), allocating the transaction- or usage-based fees to the distinct service period in which the fee is earned is appropriate when both criteria to allocate variable consideration are met. [606-10-32-40]

Criterion (a): Variable payment relates specifically to the entity's efforts to transfer the distinct good or service

When per transaction or per usage pricing is consistent throughout the contract term, this criterion is typically met. That is because this criterion is met when the fee is both:

— linked to usage of the service by the customer during a distinct service period (e.g. operating a toll road), or a result of the entity's efforts (e.g. a percentage of hospital fees during the period); *and*

— resolved as to its ultimate amount within a distinct service period (e.g. the fee is not dependent on past performance or subject to change based on future usage).

For example, if a service concession arrangement establishes a fee of $5 per car that uses the toll road and that fee does not change based on the number of cars using the toll road, criterion (a) is met for each day of service provided. This is because the fees relate specifically to the customer's usage during that distinct service period; the pricing does not depend on transferring past or future distinct services.

In contrast, if the $5 fee changes retrospectively based on usage during an entire annual period or the pricing is tiered such that the price of future usage decreases, criterion (a) is *not* met for each day. This could be the case if the grantor adjusted the amount the operator retained – e.g. the $5 fee is retroactively adjusted to $4 or the fees are $5 for the first 1 million vehicles and $4 for the next 1 million vehicles. In those scenarios, the variable amounts in each day depend on usage or performance in future (in the retrospective example) or past (in the tiered example) distinct service periods. However, the variable amounts would meet the criteria to be allocated to the *year* of the performance obligation, rather than each day, if pricing resets each year.

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Criterion (b): Allocation is consistent with the allocation objective

When per transaction or per usage pricing is consistent throughout the contract term and there is only one performance obligation in the contract, criterion (b) is typically met. That is because the focus of this criterion is on the per transaction pricing structure throughout the contract rather than the estimated transaction or usage volumes for each distinct service period (e.g. each day, month, quarter or year).

During each distinct period the entity expects to be entitled to a different amount of consideration based on the public's varying usage of the services (e.g. 100,000 vehicles in Month 1; 107,000 vehicles in Month 2; 98,500 vehicles in Month 3). However, the varying usage does not cause this criterion to not be met. It is generally the usage pricing structure (e.g. the price per vehicle) that determines whether this criterion is met.

When the transaction-based pricing structure remains consistent among the distinct service periods that comprise a series, the varying amounts of consideration to which the entity expects to be entitled each period, which are driven by the transaction volume, generally meet the allocation objective. This is because those changing amounts each period reflect changes in the value to the customer.

The presence of a fixed fee generally does not affect the analysis of whether the variable amounts can be allocated entirely to a distinct service period within the single performance obligation. However, contracts are often more complex and the analysis can become more challenging in contracts with multiple performance obligations or more complex pricing structures, and there will be many cases in which this criterion is not met as a result.

It is also possible that an entity will be able to recognize revenue for an arrangement that includes transaction- or usage-based pricing using the 'as-invoiced' practical expedient. For a discussion about when the 'as-invoiced' practical expedient can be applied, see section 3.4.50.

For further discussion of the variable allocation exception, see sections 6.6 and 6.7 of KPMG Handbook, Revenue recognition.

3.4.50 Step 5: Recognize revenue

In addition to the discussion in this section, read more in chapter 7 of KPMG Handbook, Revenue recognition ➤

An entity recognizes revenue when or as it satisfies a performance obligation by transferring a good or service to a customer, either at a point in time (when) or over time (as). A good or service is 'transferred' when or as the customer obtains control of it. [606-10-25-23]

Accordingly, at contract inception, an entity first evaluates whether it transfers control of the good or service over time. If control is not transferred over time, the entity transfers control at a point in time. [606-10-25-24]

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There are three criteria indicating that control is transferred over time, two of which are relevant in a service concession arrangement. If one of these 'over-time' criteria is met, the entity recognizes revenue over time; otherwise, control transfers to the customer at a point in time. [606-10-25-24, 25-27]

— The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs – e.g. toll road operating services.

— The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced – e.g. construction of the grantor's infrastructure.

In the context of a service concession arrangement, typically at least one of the criteria will be met and revenue will be recognized over time.

To recognize revenue from performance obligations that are satisfied over time, an entity selects a measure of progress that depicts the transfer of control of the goods or services to the customer. A measure of progress is either an output method or an input method. [606-10-25-31, 25-33]

Method	Description	Examples
Output	Based on direct measurements of the value to the customer of goods or services transferred to date, relative to the remaining goods or services promised under the contract	— Surveys of performance to date — Appraisals of results achieved — Milestones reached — Time elapsed
Input	Based on an entity's efforts or inputs toward satisfying a performance obligation, relative to the total expected inputs to the satisfaction of that performance obligation	— Resources consumed — Costs incurred — Time elapsed — Labor hours expended — Machine hours used

For a performance obligation satisfied over time, if an entity has a right to invoice a customer at an amount that corresponds directly with the value to the customer of the entity's performance to date, the entity can elect to recognize revenue at that amount. For example, in some service contracts an entity may have the right to bill a fixed amount for each unit of service provided. [606-10-55-18]

Referred to as the 'as-invoiced' practical expedient, this approach simplifies many aspects of the Topic 606 revenue model. Revenue is recognized as invoiced on the basis of the price multiplied by the measure of progress – e.g. hours of service provided. An entity that uses this practical expedient bypasses determining a transaction price (Step 3), allocating the transaction price to performance obligations (Step 4) and determining when to recognize revenue (Step 5). [TRG 07-15.40]

However, it will be difficult for an entity to conclude that the invoice amount represents equivalent value to the customer for the services provided in contracts with multiple performance obligations or when the fixed amount per unit changes over time. This might occur with contracts that have declining unit

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prices, rates with contractual minimums or volume rebates. In these cases, judgment is required to determine whether the changes in pricing are in response to a change in the underlying value to the customer. [TRG 07-15.40]

If a contract includes fixed fees in addition to per-unit invoicing (whether paid up-front or over time), substantive contractual minimums or payments to the grantor, then the use of the practical expedient may be precluded because they cause the invoiced amounts not to correspond to the value that the customer receives. [TRG 07-15.40]

For further discussion of the 'as-invoiced' practical expedient, see section 7.4.50 of KPMG Handbook, Revenue recognition.

Question 3.4.170

Must an operator use a single measure of progress for all performance obligations satisfied over time?

Interpretive response: No. However, once an operator chooses a method, it applies that method consistently to similar performance obligations and in similar circumstances. [606-10-25-32]

In addition: [606-10-25-32]

- each performance obligation can have only one method of measuring progress; and
- once chosen, the operator cannot subsequently change the method for a specific performance obligation.

Question 3.4.180

What methods can the operator use to measure the progress over time of construction activities?

Interpretive response: Many operators measure their progress on construction-related performance obligations meeting the over-time criteria using an input method such as cost-to-cost. Significant judgment may be required in some circumstances, and understanding the nature of its overall promise to the grantor is key for the operator to select an appropriate measure of progress.

Output methods, such as units-of-production or units-of-delivery, unless modified to take into account a measure of progress for work-in-process and finished goods do not depict the transfer of control of goods to the grantor. [606-10-55-17]

An operator applying an input method must exclude the effects of any inputs that do not depict its performance in transferring control of goods or services to the grantor. The following are examples. [606-10-55-21]

- The incurred cost does not contribute to the operator's progress in satisfying the performance obligation – e.g. unexpected amounts of wasted

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materials, labor or other resources; these costs are expensed as they are incurred and are not used in a cost-to-cost measure of progress.

— The cost is not proportionate to the operator's progress in satisfying the performance obligation – e.g. uninstalled materials (see Question 3.4.190).

However, many construction contracts are complex and the estimated costs to complete often include some estimate of rework or other costs that are considered in the initial estimate of contract costs. They are not considered wasted costs because they are part of the expected process of designing and completing complex and specialized projects.

Question 3.4.190

How do uninstalled materials affect the measure of progress using an input method?

Interpretive response: For uninstalled materials, the operator recognizes revenue only to the extent of the costs incurred (i.e. at a zero percent profit margin) if the operator expects all of the following conditions to be met: [606-10-55-21(b)]

— the good (e.g. elevators for a hospital) is not distinct;
— the grantor is expected to obtain control of the good significantly earlier than it receives services related to the good;
— the cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and
— the operator is acting as the principal, but procures the good from a third party and is not significantly involved in designing and manufacturing the good.

The operator should also carefully consider whether control of the infrastructure has transferred to the grantor when evaluating whether a particular cost has been incurred in satisfying an over-time performance obligation. If the operator still controls the asset (i.e. it has an alternative use to the operator), then it is inventory and not uninstalled materials.

Example 3.4.30

Uninstalled materials

A third-party supplier delivered a central heating ventilation and air-conditioning (HVAC) system to Operator, but the HVAC system could be redirected to other customers without significant cost; in this scenario, the HVAC system is inventory and not uninstalled materials related to the contract.

If, however, the HVAC system could not be redirected (e.g. title had passed to Grantor or the cost of the HVAC system could be billed to Grantor), then the HVAC system might be uninstalled materials if:

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— the cost is significant to the performance obligation; and
— its inclusion in the measure of progress would not appropriately depict the transfer of control of the performance obligation to Grantor.

Question 3.4.200

What methods can the operator use to measure the progress over time of operation or maintenance activities?

Interpretive response: A time-elapsed measure of progress is frequently appropriate for recognizing revenue for a stand-ready performance obligation (see Question 3.4.30). For example, in a health club contract, revenue is generally recognized on a straight-line basis because the pattern of benefit to the customer as well as the entity's efforts to fulfill the contract are generally even throughout the period. However, this might not always be the case.

The TRG discussed an example of an annual contract to provide snow removal services. The TRG concluded that a straight-line basis of recognition over the year is not appropriate because the pattern of benefit of these services, as well as the entity's efforts to fulfill the performance obligation, generally is not even throughout the year. For example, in New York, the revenue attributable to this performance obligation would likely be recognized entirely (or almost entirely) during the November through March period of the annual contract when the service provider has equipment and crews on standby. [TRG 01-15.16]

In selecting the appropriate measure of progress, an operator considers the substance of the stand-ready obligation to ensure that the measure of progress aligns with the nature of the underlying promise. Relevant aspects of the nature of the underlying promise include the timing of transfer of goods or services and whether the operator's efforts (i.e. costs) are expended evenly throughout the period covered by the stand-ready obligation. For example, an operator of a new toll road expects significant growth over its committed period of operation; therefore, it might determine that a measure of progress that aligns with that growth (e.g. usage, costs) is a better depiction of how the benefit of its services are transferred to the grantor and the public. [TRG 01-15.16]

Question 3.4.210

When does an operator begin to recognize revenue for operations activities?

Interpretive response: When the public has the ability to access and begin to consume and benefit from the infrastructure.

Before the public has access to the infrastructure, the operator has not started to fulfill the service performance obligation. Therefore, the operator does not begin to recognize the service revenue until the public can begin to consume and benefit from that service.

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3.4.60 Contract modifications

In addition to the discussion in this section, read more in chapter 11 of KPMG Handbook, Revenue recognition ➤

An approved contract modification is treated as either a separate contract or part of the existing contract. Modifications are accounted for prospectively when the remaining goods or services are distinct, on a cumulative catch-up basis when the remaining goods or services are not distinct, or as a combination of the two approaches when some of the remaining goods or services are distinct and others are non-distinct. [606-10-25-12 – 25-13]

This section focuses on expansion of the infrastructure agreed partway through the contract term.

Question 3.4.220

How does an operator account for a subsequent agreement to expand the grantor's infrastructure?

Background: Partway through the term of a service concession arrangement, the operator and grantor might agree to an expansion of the infrastructure that was not contemplated in the original contract. This might be done by entering into a new contract or modifying the original contract.

Interpretive response: A contract modification is treated as a separate contract if the modification results in: [606-10-25-12]

- a promise to deliver the infrastructure expansion that is distinct; and
- an increase in the price of the contract by an amount of consideration that reflects the operator's stand-alone selling price of the expansion as adjusted for the circumstances of the contract.

Promise is distinct

In determining whether a promise to deliver the infrastructure expansion is distinct, the discussion in section 3.4.20 is relevant.

Increase in price reflects the stand-alone selling price

If a contract modification adds distinct promises and also meets the pricing criteria, the modification is not economically different from an entity entering into a separate contract for additional goods or services.

The original contract continues to be accounted for as it was before the modification. The modification is treated as a new contract to which Topic 606 is applied, meaning the new contract is accounted for prospectively. [606-10-25-12]

Increase in price does not reflect the stand-alone selling price

If a contract modification does not meet the pricing criteria, the agreement to expand the infrastructure is combined with the original agreement.

The unrecognized consideration plus any additional consideration added by the modification is allocated to the remaining performance obligations (including the

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expansion). Revenue is recognized when or as the remaining performance obligations are satisfied. [606-10-25-13(a) – 25-13(b)]

— If the remaining promises are distinct, revenue is recognized prospectively.
— If the additional promises are not distinct, the modification is recognized through a cumulative-catch up adjustment by adjusting the transaction price and the measure of progress of the nondistinct performance obligation.

In some cases, a modification may include both distinct and non-distinct performance obligations. For example, the operator and grantor agree to a scope change on the existing construction that is determined to be not distinct from the existing and ongoing construction services, while also agreeing to extend the committed service term for the operation services (i.e. adding distinct time periods of service). Judgment is required in this scenario because the operator will use a combination of methods for which Topic 606 does not provide additional guidance. [606-10-25-13(c)]

Example 3.4.40
Expansion of toll road lanes

Operator enters into a 20-year service concession arrangement with Grantor, whereby Operator agrees to construct, operate and maintain a four-lane public toll road. The arrangement is in the scope of Topic 853, and the transaction price is variable (toll fees paid by drivers).

Following the original construction of the toll road, the only remaining performance obligation is operations activities, including routine maintenance (see Question 3.4.40).

At the start of Year 12, Operator and Grantor negotiate the construction of two additional lanes, which was not contemplated in the original contract.

In this example, Operator has concluded that the arrangement does not contain a significant financing element (see section 3.4.30).

Scenario 1: Increase in price reflects the stand-alone selling price

The parties agree that Grantor will pay fixed consideration of $100 million for the expansion, in addition to the increased tolls that Operator will receive as a result of the increased capacity. This is intended to compensate Operator for:

— constructing the additional lanes; and
— the additional effort required in performing operations activities for the remainder of the contract term post-construction (Years 14 to 20).

Operator concludes that the increase in price reflects the stand-alone selling price for this combination of performance obligations.

Therefore, the accounting under the original contract is not affected, and Operator accounts for the new contract prospectively. In particular, the transaction price ($100 million plus estimated additional tolls) is allocated between the two performance obligations (Step 4) and the appropriate pattern of revenue recognition is determined (Step 5).

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Scenario 2: Increase in price does not reflect the stand-alone selling price

The parties agree on the same consideration as in Scenario 1. However, Operator concludes that the increase in price does not reflect the stand-alone selling price for this combination of performance obligations. The pricing of the new contract includes an element of discount, which does not relate to past performance issues.

In this scenario, the modification is accounted for as a termination of the original contract and the creation of a new contract. This means that Steps 1 to 5 of the revenue model are applied at the start of Year 12. The transaction price comprises the unrecognized consideration to date, plus the $100 million and estimated additional tolls. The following performance obligations are identified:

- construction of two additional lanes;
- operation of four-lane toll road in Years 12 and 13 (during construction); and
- operation of six-lane toll road in Years 14 to 20 (after construction).

3.4.70 Contract costs

In addition to the discussion in this section, read more in chapter 12 of KPMG Handbook, Revenue recognition ➤

Incremental costs to obtain contracts (e.g. sales commissions) are required to be capitalized if the operator expects them to be recoverable. Costs that will be incurred regardless of whether the contract is obtained (including costs that are incremental to trying to obtain a contract) are expensed as they are incurred, unless they meet the criteria to be capitalized as fulfillment costs. [340-40-25-1, 25-3]

Operators frequently incur either or both of the following: [340-40-25-1 – 25-3, 25-5]

- **Costs to obtain a customer contract.** These costs are incremental (i.e. would not have been incurred but for obtaining the contract) – e.g. sales commissions and fringe benefits directly attributable to payment of that commission, such as additional 401(k) match or payroll taxes. Costs that are not incremental to obtaining a customer contract are expensed as incurred unless capitalized in accordance with other US GAAP.

  The following are not incremental costs (not exhaustive):

  - costs that are incurred regardless of whether the contract is obtained – e.g. costs incurred in negotiating or drafting a contract;
  - costs that depend on further performance by the recipient, such as continued employment at a future date when all or a portion of a commission will be paid; see further discussion in Question 12.3.40 in KPMG Handbook, Revenue recognition; and
  - payments based on operating metrics like EBITDA or operating income that are not solely linked to obtaining one or more customer contracts.
- **Costs to fulfill a contract.** These are costs associated with set-up activities (e.g. labor costs) that do not provide a service to the customer in an arrangement.

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Costs to fulfill a contract are capitalized if they meet all of the following criteria:

- relate to an existing contract or specific anticipated contract;
- generate or enhance resources of the entity that will be used to satisfy performance obligations in the future; and
- are expected to be recovered.

As a practical expedient, a contractor is not required to capitalize the incremental costs to obtain a contract if the amortization period for the asset is one year or less. We generally do not expect this practical expedient to apply to a service concession arrangement. [340-40-25-4]

3.5 Long-lived assets

Excerpt from ASC 853-10

> The Operating Entity's Rights over the Infrastructure

25-2 The infrastructure that is the subject of a service concession arrangement within the scope of this Topic shall not be recognized as property, plant, and equipment of the operating entity. Service concession arrangements within the scope of this Topic are not within the scope of Topic 842 on leases.

Topic 853 prohibits the infrastructure that is the subject of the service concession arrangement from being recognized as PP&E by the operator. However, over the term of a service concession arrangement, many individual assets will typically be used and replaced. It is appropriate to recognize some of these assets as long-lived assets of the operator – e.g. snow plows that the operator will retain. [853-10-25-2]

Question 3.5.10

How does the operator account for assets that will not revert to the grantor?

Interpretive response: Assets that the operator uses to provide the service and retains title to at the end of the arrangement should be recognized as long-lived assets.

These assets should be accounted for in the usual way under US GAAP, applying Topic 350 (intangible assets) or Topic 360 (property, plant and equipment). In the context of the service concession arrangement, these assets are not part of the infrastructure that is in the scope of Topic 853.

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Question 3.5.20

How does the operator account for nonessential assets that are affixed to the infrastructure?

Background: An operator may enhance the infrastructure at its discretion in order to maximize earnings – e.g. by installing affixed seating or equipment that monitors energy usage. These assets are not essential to the operation of the infrastructure and are not required under the terms of the arrangement.

Interpretive response: We believe that nonessential assets affixed to the infrastructure should be recognized as assets of the operator if those assets could reasonably be removed from the infrastructure either during or at the end of the arrangement without incurring significant cost and used or otherwise disposed of by the operator for value. In other words, these assets are not integral to the underlying item (e.g. equipment).

Example 3.5.10

Assets that do not revert to the grantor

Operator enters into a 30-year service concession arrangement with Grantor, whereby Operator agrees to operate and maintain an airport. The arrangement is in the scope of Topic 853.

The infrastructure includes the terminal, parking facilities, runways, hangars and the control tower. Additional assets, such as vehicles, and office furniture, are acquired by Operator as part of its performance of the operations activities, but do not revert to Grantor during or at the end of the arrangement.

In addition, Operator installs seating areas to help maximize retail spend on food by visitors to the airport. The seats are affixed but could be removed with minimal effort and cost.

Operator accounts for the additional assets (vehicles, office furniture, etc.) and the affixed seating under Subtopic 360-10.

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4. Example: toll road

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4. Example: toll road

The example in this chapter should be read together with section 3.4, and illustrates the accounting for the following services:

— construction;
— operations, including routine maintenance; and
— planned major maintenance.

In this example, no monies are provided by the grantor. Instead, the operator earns all revenue (variable consideration) from third-party users of the toll road.

4.1 Fact pattern

On January 1, Year 1, the State Department of Transportation (Grantor) awards a 30-year toll road contract to Operator.

The estimated fees to be collected by Operator over the term of the contract are expected to be $2 billion (including expected toll increases). The contract includes the following Operator obligations:

— develop, design and construct a four-lane 100-mile toll road – Grantor has legal title to the toll road throughout the contract;
— operate the toll road and perform routine maintenance; and
— carry out planned major maintenance, specifically resurfacing the toll road every nine years.

Operator will finance the construction of the toll road privately. Grantor is not providing any funding to Operator.

Operator will receive all cash inflows over the life of the contract directly from users of the toll road. Grantor will not make any payments to Operator. The fees for using the toll road will be set annually by Grantor.

4.2 Scoping

Following the analysis outlined in chapter 2, Operator concludes that the arrangement is in the scope of Topic 853.

Criteria	Met?	Analysis
Scoped out of regulated operations (section 2.2)	✔	The arrangement does not relate to regulated operations in the scope of Topic 980.
Parties to the arrangement (section 2.2)	✔	The arrangement is between a public sector grantor and a private sector operator.
Type of service provided (section 2.2)	✔	The arrangement involves the operation of the grantor's infrastructure to provide a public service
Control of residual interest (section 2.3)	✔	At the end of the arrangement, ownership of the toll road (by virtue of legal title) resides with Grantor.
Determining services (section 2.4.20)	✔	The toll road has a singular purpose by design – to allow the passage of vehicles. This is determined by state legislation.

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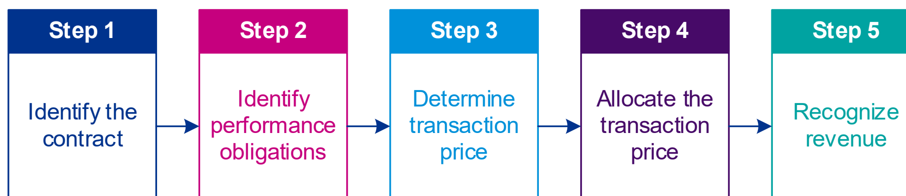
Criteria	Met?	Analysis
Determining recipients (section 2.4.20)	✔	The toll road is open to the public without restriction. This is determined by state legislation.
Determining pricing (section 2.4.20)	✔	Grantor determines pricing annually.

4.3 Applying Topic 606

Having concluded that the arrangement is in the scope of Topic 853, Operator follows the steps in Topic 606.



4.3.10 Step 1: Identify the contract

The contract with Grantor (customer) is legally enforceable and all of the following criteria are met:

- both parties have approved the contract and are committed to perform;
- both parties can identify the other's rights and obligations;
- the payment terms can be identified;
- the contract has commercial substance; and
- it is probable that the operator will collect substantially all of the consideration to which it will be entitled.

Further, neither party has the unilateral right to cancel the contract during the 30-year term. Therefore, the enforceable term is determined to be 30 years.

4.3.20 Step 2: Identify performance obligations

The contract includes the following promises to Grantor:

- construct the toll road;
- operate the toll road;
- perform routine maintenance; and
- carry out resurfacing (three times).

These promises are accounted for separately as performance obligations if they are both (1) capable of being distinct, and (2) distinct in the context of the contract (i.e. separately identifiable). The following table summarizes Operator's analysis.

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<table>
<tr><th>Capable of being distinct</th><th>Distinct in the context of the contract</th></tr>
<tr><td colspan="2">Construction: distinct from operations and maintenance</td></tr>
<tr><td>— Grantor can benefit from the toll road on its own.
— Other entities could provide the construction services.</td><td>Construction of the toll road is separately identifiable from other promises and does not significantly affect the other services.</td></tr>
<tr><td colspan="2">Operations and routine maintenance: distinct when combined</td></tr>
<tr><td>Grantor could engage different entities to perform operations versus carry out routine maintenance. The individual activities are capable of being distinct. Each period of the stand-ready obligation is distinct from the next.</td><td>The nature of the promise in the contract is to stand-ready to provide operations and maintenance services over a period of time. Therefore, the indeterminate number of small acts to operate and maintain the toll road are not the focus of the distinct evaluation. Instead, they are inputs (or fulfillment activities) to provide the combined output (the overall stand-ready service obligation). Operator evaluates whether the time increments that comprise the stand-ready period are distinct from one another.
The other services (e.g. construction and planned major maintenance) do not significantly affect whether Operator can fulfill its stand-ready obligation to provide operations and maintenance services.</td></tr>
<tr><td colspan="2">The operation and routine maintenance services comprise a stand-ready performance obligation and each time increment within that service is distinct from the other. Because each time period is distinct, substantially the same and has the same pattern of over-time transfer, the stand-ready obligation is accounted for as a series (a single performance obligation). Therefore, the performance obligation is not split into separate performance obligations for each month or even each day of service even though the time periods are distinct.</td></tr>
<tr><td colspan="2">Planned major maintenance: each instance distinct</td></tr>
<tr><td>— Grantor benefits from each resurfacing in conjunction with the toll road that has already been constructed.
— Other entities could provide the service.</td><td>— The planned major maintenance is separately identifiable from other promises and does not significantly affect the other construction or operations services. Each resurfacing service does not significantly affect Operator's ability to provide the other resurfacing services.</td></tr>
<tr><td colspan="2">Even though each resurfacing service is distinct, Operator evaluates whether the series guidance applies. Operator determines that the underlying services provided in each planned major service are substantially the same and transferred over time in the same pattern of transfer (e.g. on a cost-to-cost basis). Therefore, Operator will account for the planned major maintenance services as a series of planned major maintenance events – a single performance obligation.</td></tr>
</table>

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4.3.30 Step 3: Determine transaction price

Consideration

Operator is entitled to collect and retain the payments made by the users of the toll road over the duration of the contract. Because these payments are not known at contract inception and there is no fixed fee in the contract, the entire transaction price comprises variable consideration.

Operator estimates the expected value of the consideration using probability-weighted amounts in a range of possible consideration outcomes. Given the uncertainty about the amount of consideration and the 30-year time period, the estimate is then constrained to $2 billion in toll fees – an amount that is not probable of a significant reversal in the amount of revenue recognized when the amount of fees become known.

Significant financing component

There is a significant timing difference between when control of the toll road (and perhaps the other services) is transferred to Grantor and when the users of the toll road pay for the services. However, there is not a significant financing component that needs to be accounted for separately because the consideration is variable, and the amount and timing of the consideration is outside both Operator's and Grantor's control (see Question 3.4.130).

Changes in estimates

Operator will need to update its estimate of variable consideration and amounts of that variable consideration that should be constrained throughout the contract. Any change in the estimate or amount constrained will result in a change to the transaction price. This is illustrated in section 4.3.60.

4.3.40 Step 4: Allocate the transaction price

Operator allocates the transaction price to each performance obligation based on estimated stand-alone selling prices, which have been estimated as follows:

- Construction: expected cost plus a margin.
- Operations and all maintenance (routine and resurfacing): directly observable prices.

$ millions **Performance obligation**	**Stand-alone selling price**	**Selling price ratio**	**Transaction Price allocation**
Construction	$ 750	33.7%	$ 674
Operations, including routine maintenance	1,100	49.4%	988
Planned major maintenance – three resurfacing services	375	16.9%	338
Total	**$ 2,225**		**$ 2,000**

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4.3.50 Step 5: Recognize revenue

The journal entries in this section assume no changes in variable consideration and perfect estimates to illustrate the concepts. In reality, changes in estimates would occur; a change in estimated transaction price is illustrated in section 4.3.60.

Construction services

Operator builds the toll road over 15 months. Operator's performance of the construction services creates an asset (the toll road), which is controlled by Grantor as construction progresses. Operator applies a cost-to-cost input measure of progress to the construction services and expects the following at contract inception.

$ millions	
Transaction price	$ 674
Expected costs	(575)
Expected profit (15%)	**$ 99**

Operator records the following journal entries in Years 1 and 2 related to construction of the toll road.

$ millions	*Debit*	*Credit*
Contract asset[1]	539	
Revenue		539
Operating expenses	460	
Cash/Accounts payable		460
To recognize Year 1 construction revenue and expense.		
Contract asset[2]	135	
Revenue		135
Operating expenses	115	
Cash/Accounts payable		115
To recognize Year 2 construction revenue and expense.		

Notes:

1. ($460 million costs incurred / $575 million expected costs) × $674 million.
2. ($115 million costs incurred / $575 million expected costs) × $674 million.

Operations, including routine maintenance

Operator operates the toll road and provides routine maintenance each period of the service concession arrangement. Grantor simultaneously receives and consumes the benefits provided by Operator's performance as the services are performed.

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Therefore, Operator recognizes revenue over the period it is operating the toll road. Operations begin on completion of the toll road construction (at month 16). During resurfacing (major maintenance), lanes are reduced but the toll road remains open.

Operator records the following journal entry related to operation of the toll road each month of the arrangement.

$ millions	*Debit*	*Credit*
Cash (actual toll collections)	6	
Contract asset		3
Revenue[1]		3
To recognize monthly operations revenue.		
Note:		
1. $988 million price allocation / 345 months of operations and routine maintenance.		

Resurfacing

Operator records the following journal entry over each period of the time that resurfacing is carried out. In practice, Operator is likely to use a cost-to-cost input measure of progress and recognize revenue such that a consistent margin is achieved for all resurfacing activities (a single performance obligation) based on costs incurred. For simplicity, this example assumes the costs incurred are the same for each resurfacing. However, cost inflation would be expected in many cases.

$ millions	*Debit*	*Credit*
Contract asset	113	
Revenue		113
To recognize revenue relating to planned major maintenance.		

Toll receipts

The contract asset will be reduced as tolls are received. Once the contract asset is reduced to zero at any point in time, Operator will:

- credit a contract liability to the extent that it has remaining performance obligations; and
- credit revenue for any excess (which represents a change in transaction price).

4.3.60 Change in estimate of variable consideration

As noted in section 4.3.30, Operator will need to update its estimate of variable consideration and amounts of that variable consideration that should be constrained throughout the contract.

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Traffic on the toll road is greater than expected. In Year 5, Operator increases its constrained estimate of variable consideration over the life of the contract to $2.1 billion.

Operator uses the new estimate to reallocate the transaction price to the performance obligations. Operator does not change its original assessment of the stand-alone selling prices.

$ millions **Performance obligation**	**Stand-alone selling price**	**Selling price ratio**	**Transaction Price allocation**
Construction	$ 750	33.7%	$ 708
Operations, including routine maintenance	1,100	49.4%	1,037
Planned major maintenance – three resurfacing services	375	16.9%	355
Total	**$ 2,225**		**$ 2,100**

Next, Operator calculates how much additional revenue should be recognized in Year 5. This is done by comparing what would have been recognized using the new estimate of the transaction price to what has been recognized.

$ millions **Performance obligation**	**Recognized to date**	**Should be recognized**	**Difference**
Construction	$674	$708	$34
Operations, including routine maintenance[1]	95	99	4
Resurfacing	--	--	--

Note:

1. 33 months recognized to the end of Year 4.

Operator then records the following journal entry.

$ millions	*Debit*	*Credit*
Contract asset	38	
Revenue		38
To recognize additional revenue related to change in expected transaction price.		

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5. Example: bridge toll – operations services only

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5. Example: bridge toll - operations services only

The example in this chapter should be read together with section 3.4, and illustrates the accounting for operations services, including routine maintenance.

Similar to Example 4 in chapter 4, no monies are provided by the grantor. Instead, Operator earns all revenue (variable consideration) from third-party users of the bridge, but only operations services with routine maintenance are provided.

5.1 Fact pattern

On January 1, Year 1, the State Department of Transportation (Grantor) awards a 10-year bridge toll contract to Operator.

The contract comprises an obligation for Operator to operate the bridge toll and perform routine maintenance.

Operator will pay a $120 million one-time up-front payment to obtain the rights to operate and maintain the infrastructure. At the end of the 10-year enforceable period, Operator expects it will need to make an additional payment to the Grantor for the rights to extend the enforceable contract term.

Operator will receive all cash inflows over the life of the contract directly from users of the bridge. Grantor will not make any payments to Operator. The fees for using the bridge are set at $5 per vehicle until Grantor modifies the contract to change the pricing.

5.2 Scoping

Following the analysis outlined in chapter 2, Operator concludes that the arrangement is in the scope of Topic 853.

Criteria	Met?	Analysis
Scoped out of regulated operations (section 2.2)	✔	The arrangement does not relate to regulated operations in the scope of Topic 980.
Parties to the arrangement (section 2.2)	✔	The arrangement is between a public sector grantor and a private sector operator.
Type of service provided (section 2.2)	✔	The arrangement involves the operation of the grantor's infrastructure to provide a public service
Control of residual interest (section 2.3)	✔	At the end of the arrangement, ownership of the bridge (by virtue of legal title) resides with Grantor.
Determining services (section 2.4.20)	✔	The bridge has a singular purpose by design – to allow the passage of vehicles. This is determined by state legislation.

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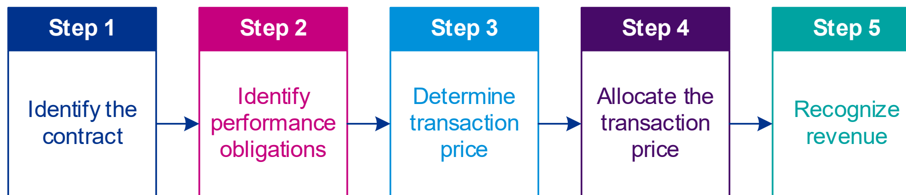
Criteria	Met?	Analysis
Determining recipients (section 2.4.20)	✔	The bridge is open to the public without restriction. This is determined by state legislation.
Determining pricing (section 2.4.20)	✔	Grantor determines pricing.

5.3 Applying Topic 606

Having concluded that the arrangement is in the scope of Topic 853, Operator follows the steps in Topic 606.



5.3.10 Step 1: Identify the contract

The contract with Grantor (customer) is legally enforceable and all of the following criteria are met:

- both parties have approved the contract and are committed to perform;
- both parties can identify the other's rights and obligations;
- the payment terms can be identified;
- the contract has commercial substance; and
- it is probable that the operator will collect substantially all of the consideration to which it will be entitled.

Neither party has the unilateral right to cancel the contract during the 10-year term.

5.3.20 Step 2: Identify performance obligations

The contract includes the following promises to Grantor:

- operate the bridge toll; and
- perform routine maintenance.

These promises are separated into performance obligations and are accounted for separately if they are both (1) capable of being distinct, and (2) distinct in the context of the contract. The following table summarizes Operator's analysis.

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Capable of being distinct	Distinct in the context of the contract
Operations and routine maintenance: distinct periods of service	
Grantor could engage different entities to perform operations versus carry out routine maintenance. The individual activities are capable of being distinct. Each period of the stand-ready obligation is distinct from the next.	The nature of the promise in the contract is to stand-ready to provide operations and maintenance services over a period of time. Therefore, the indeterminate number of small acts to operate and maintain the toll road are not the focus of the distinct evaluation. Instead, they are inputs (or fulfillment activities) to provide the combined output (the overall stand-ready service obligation). Operator evaluates whether the time increments that comprise the stand-ready period are distinct from one another.
The operation and routine maintenance services comprise a stand-ready performance obligation and each time increment within that service is distinct from the other. Because each time period is distinct, substantially the same and has the same pattern of over-time transfer (see Step 5), the stand-ready obligation is accounted for as a series (a single performance obligation). Therefore, the performance obligation is not split into separate performance obligations for each month or even each day of service even though the time periods are distinct.	

5.3.30 Step 3: Determine transaction price

Consideration

Operator will pay an up-front one-time payment of $120 million to obtain the rights to operate and maintain the toll road for the duration of the contract. At the end of the 10-year enforceable period, Operator expects it will need to make an additional payment to Grantor for the rights to extend the enforceable contract term. Because the payment is not in exchange for a distinct good or service, the amount is accounted for as a reduction of the transaction price.

Operator is entitled to collect and retain the payments made by the users of the bridge over the duration of the contract. Because these payments are not known at contract inception and there is no fixed fee in the contract, the entire transaction price, excluding the up-front payment, consists of variable consideration.

Before estimating variable consideration, Operator evaluates whether the contract terms meet the requirements to allocate these fees entirely to each distinct service period as they are earned in the contract (see Step 4).

Significant financing component

A substantial portion of the consideration is variable, and the amount and timing of the consideration is outside both Operator's and Grantor's control. As a result, there is a not a significant financing component that needs to be accounted for separately. Operator would evaluate whether the up-front payment to the Grantor represents a significant financing component. For

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purposes of this example, it is assumed that no significant financing component exists.

5.3.40 Step 4: Allocate the transaction price

As noted in Step 2, the nature of the promise in the contract is to stand-ready to provide operations and maintenance services over a 10-year period. Each time increment (e.g. month, day) within the stand-ready period was determined to be distinct. The performance obligation is a series of distinct periods of service. Operator determines whether it meets the criteria to allocate the tolls to the distinct time periods within the stand-ready period.

a) The terms of the variable payment relate specifically to Operator's efforts to satisfy the performance obligation of standing ready to operate the bridge toll and provide routine maintenance services.

   The variability in the consideration is based on the volume of cars that cross the bridge each day and is therefore attributable to Operator's efforts each day it is standing ready to provide those services. There are no other performance obligations in the contract to which the tolls could relate. The toll charge per car (based on axles) is consistent from period to period unless Grantor makes a contract modification to change the toll charge on a prospective basis. Therefore, each daily toll charge is independent of past or future toll operations and is attributable specifically to that day's service.

b) The allocation of the tolls to each day of service (i.e. each distinct time period) results in an allocation that is consistent with the allocation objective because only one performance obligation exists in the contract. The maintenance activities are routine activities and not separate performance obligations. There are no periods of routine maintenance when there are no operations activities.

As a result, an estimate of the variable consideration is not required and the daily toll charges are allocated to each day of service – i.e. each distinct time period within the series.

5.3.50 Step 5: Recognize revenue

Operations, including routine maintenance

Grantor simultaneously receives and consumes the benefits provided by Operator's performance as the services are performed. Therefore, the over-time recognition criteria are met and, as noted in Step 2, the series guidance applies. The arrangement consists of a single performance obligation satisfied over time.

Under the general revenue model when the variable consideration allocation exception criteria (see Step 4) is not met, tolls will be estimated and recognized over time using a single measure of progress (e.g. time elapsed). This is demonstrated in Example 4 in chapter 4. This measure of progress is considered when accounting for the up-front payment to the customer (see below). However, because the criteria to allocate the tolls to the distinct periods

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of performance is met in this example (see Step 4), Operator recognizes revenue for the toll amounts allocated to each day of service -- as bridge toll payments are charged to the third-party users each period it is operating the bridge toll.

Operator records the following journal entry related to operation of the bridge toll each month of the arrangement.

$ millions	*Debit*	*Credit*
Cash/ receivable[1]	15	
Revenue		15
To recognize monthly operations revenue.		
Note:		
1. 3 million vehicles × $5 fee.		

Up-front one-time payment

The up-front payment is capitalized because it is expected to be recovered by the expected cash flows during the 10-year enforceable contract period. It is accounted for as a reduction of transaction price and therefore recognized over the contract period using an appropriate measure of progress (e.g. time elapsed).

$ millions	*Debit*	*Credit*
Contract asset	120	
Cash		120
To recognize contract asset at inception.		
Contra-revenue[1]	1	
Contact asset		1
To record monthly attribution of up-front payment based on time-elapsed measure of progress.		
Note:		
1. $120 million payment ÷ 120 months		

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6. Presentation and disclosure

Detailed contents

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6.4 Long-lived asset presentation and disclosures

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6.1 Source of requirements

Topic 853 does not include specific presentation or disclosure requirements. Therefore, all requirements come from other standards. Relative to the discussion in this publication, the following are particularly relevant:

— accounting policies;
— revenue-related presentation and disclosure requirements; and
— asset-related presentation and disclosure requirements (for long-lived assets discussed in Question 3.5.10 that are not part of the infrastructure and therefore outside the scope of Topic 853).

6.2 Accounting policies

For the most part, the accounting policy elections made by an operator depend on the application of other standards – e.g. Topic 606 for revenue.

Related to the discussion in this publication, we believe the operator should disclose the following accounting policy elections: [235-10-50-1]

— which accounting model the operator applies when it has legal title to the infrastructure until the end of the arrangement (see Question 2.3.10).

— how the operator classifies on the balance sheet a nonrefundable up-front payment to the grantor (see Question 3.4.110).

See section 6.3 of KPMG Handbook, Financial statement presentation, for further discussion on accounting policy disclosures.

6.3 Revenue presentation and disclosures

KPMG Handbook, Revenue recognition, includes chapters on presentation and disclosure. Those discussions are not repeated here, but cover the following areas:

— disclosure objective;
— general requirements;
— disaggregation of revenue;
— contract balances;
— performance obligations;
— transaction price allocated to remaining performance obligations;
— significant judgments;
— costs to obtain or fulfill a contract;
— practical expedients and accounting policies elected; and
— interim disclosures.

Related to the discussion in this publication, the following flowchart summarizes when an entity presents a contract asset, contract liability and/or a receivable on the balance sheet. This may be particularly relevant in a service concession arrangement because of the timing of performance obligations versus cash flows.

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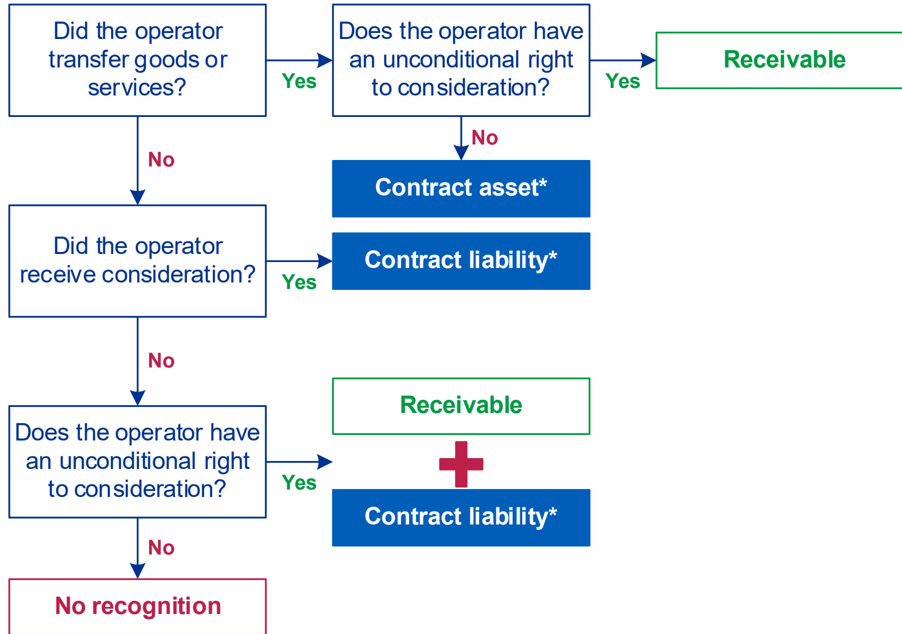

*Contract assets and contract liabilities for a single contract is presented on a net basis at the contract level

In addition to the general principles in this flowchart, Question 3.4.110 discusses the presentation of a nonrefundable up-front payment made by the operator to the grantor.

6.4 Long-lived asset presentation and disclosures

See Topic 350 (intangible assets) and Topic 360 (property, plant and equipment) for presentation and disclosure requirements for the long-lived assets used by the operator to provide the service that are not part of the grantor's infrastructure (i.e. assets that the operator retains title to at the end of the arrangement).

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