

Query No. 7

Subject: Accounting treatment of Concession Agreement under AS framework.¹

A. Facts of the Case

1. A corporation (hereinafter referred to as ‘the Corporation’), established under an Act of Parliament (hereinafter referred to as ‘the Act’), is a Category-I Mini-Ratna public sector enterprise. The Corporation is mandated under the Act, inter-alia, to manage the airports, civil enclaves and the aeronautical communication stations efficiently (other than airports and airfields belonging to, or subject to the control of, any armed force of the Union). It is a statutory corporation and is not a Company under the Companies Act, 2013. Further, it follows Prescribed Accounting Standards (AS) and not Indian Accounting Standards (Ind AS).

2. The querist has stated that during the financial year (F.Y.) 2020-21, the Corporation had signed concession agreements for operations, management and development for Ahmedabad, Lucknow and Mangaluru International Airports with A Ahmedabad International Airport Ltd., A Lucknow International Airport Ltd. and A Mangalore International Airport Ltd. (Concessionaries) respectively through bidding process for a period of 50 years commencing from the Commercial Operation Date (COD). Concessionarie commenced operations in Mangaluru International Airport (Mangaluru) on 31st October, 2020.

3. As per the executed agreements, Concessionaire shall pay to the Corporation, the following amounts:

a) **Estimated Deemed Initial Regulatory Asset Base (RAB) –**

Upfront payment towards the estimated depreciated value of investments made by the Corporation as on 31.03.2018 in aeronautical and non-aeronautical assets.

b) **Capital Work in Progress**

Upfront payment relating to the value of capital work in progress as on the Commercial Operation Date.

c) **Monthly Concession Fee**

To pay monthly Concession Fee to the Corporation calculated in respect of Domestic and International Passengers Throughput at the airport at the rates stipulated in the executed agreements.

Articles 5 and 6 of the Concessionaire Agreement relate to the obligations of the Concessionaire and the Corporation, respectively. Further, Article 27 and Article 28 of the Concessionaire Agreement relate to payment of Concession Fee and other fees by Concessionaire to the Corporation.

Article 27 - Concession fee: It states about the Per Passenger Fee for Domestic Passengers/International Passengers, Domestic Passenger Throughput/ International Passenger Throughput, Computation of Monthly Concession Fee, its revision, its payment,

¹ Opinion finalised by the Committee on 19.4.2023 and 20.4.2023.

yearly reconciliation, etc. It also states that in case Passenger Traffic Change is negative by 20% or more for a consecutive period of 2 (two) Concession Years, the Agreement may be terminated by the Concessionaire within 180 days of the expiry of the second such Concession Year, by giving a notice of 30 days. It also states that the Corporation shall not commission a new airport within a 50 Km radius of the Airport prior to the expiry of 10 years from the COD.

Article 28 – Fees: It states about the Collection of Fees by the Concessionaire, Collection of Reserved Charges, Principles of Determination and Revision of Aeronautical Charges, Review of Aeronautical Charges, Certain limitations on increase in Aeronautical Charges, Penalty for evasion of Fees, Display of Aeronautical Charges, Monthly Statement, Fee Contractor, Deemed Initial RAB, Initial Non-Aeronautical Investments, Methodology and Periodicity for payment of Estimated Deemed Initial RAB and Estimated Initial Non-Aeronautical Investments to the Corporation, etc.

(A copy of the Concessionaire Agreement in respect of Mangaluru International Airport has been separately provided by the querist for the perusal of the Committee.)

4. The querist has further stated that considering the long period of above Concessionaire agreements and also taking into account the complexity involved, the Corporation decided to have an expert opinion to review the Concession Agreement signed by it for operations, management and development for Ahmedabad, Lucknow, and Mangalore Airports with the Concessionaries from accounting perspective on the following matters:

- Accounting treatment of upfront payment by Concessionaires for obtaining effective control over aeronautical assets and non-aeronautical assets for the performance of the Agreement at Written Down Value (WDV) and identification of the potential impact of applicable Accounting Standards (AS)/Indian Accounting Standards (Ind AS) based on review.
- Accounting treatment of amount received/ receivables on account of Capital work in progress as on COD and identification of the potential impact of applicable Accounting Standards (AS) /Indian Accounting Standards (Ind AS) based on review.
- Accounting treatment of Monthly Concession Fee from Concessionaires as a consideration for the project awarded for a period of 50 years commencing from the COD and identification of the potential impact of applicable Accounting Standards (AS) /Indian Accounting Standards (Ind AS) based on review.

5. Accordingly, the Corporation engaged a Consultant to have expert opinion on the subject. The Consultant after analysing the provisions of the Act, the relevant Concession Agreements, information and explanations in relating to the transactions provided by the Corporation, Accounting Standard (AS) 9, 'Revenue Recognition', Accounting Standard (AS) 19, 'Leases', India Accounting Standard (Ind AS) 115, 'Revenue from Contracts with Customers' has opined the following with regard to the accounting treatment:

- (a) The upfront payment received by the Corporation towards the Estimated Deemed Initial RAB should be accounted for as 'Operating Lease Income' over the lease period. Asset will continue to appear in the books of the Corporation.

- (b) In respect of amount received/receivable by the Corporation towards the value of work in progress as on the Commercial Operation Date (COD) from the Concessionaire, the amount so accrued should be accounted for as 'Operating Lease Income' over the lease period as per AS 19.

Also, whenever the concessionaire puts CWIP assets into use after completion, the Corporation should capitalise the value with expenditure incurred by the Corporation till COD and start claiming depreciation on such assets.

- (c) In respect of Monthly Concession Fee, the amount should be considered as 'Contingent Rent' as per AS 19 to be received over a period of 50 years and recognise the same as Lease Rent on monthly basis.

The above opinion of the Consultant was deliberated and the Corporation has accepted the opinion. The accounting treatment was accordingly given by the Corporation in its books of account as on 31.03.2021.

6. Government Audit while auditing the annual accounts of the Corporation for the F.Y. 2020-21 had issued 2 half margins (HMs) in respect of transactions related to PPP Airports:

- (a) The 1st HM was relating to CWIP amount as on COD date. In this regard, Government Audit by referring the clause 6.4.5 stated that the payment of CWIP will be in the form of reimbursement and same will be capitalised in the books of Concessionaire; hence, the accounting treatment mentioned by the Corporation in respect of the payment of CWIP is not correct. The same may be treated as an advance to the Concessionaire. This has resulted into overstatement of CWIP, understatement of loans and advances by Rs. 599.29 crore, overstatement of liability to the extent of Rs. 594.35 crore and overstatement of lease income to the extent of Rs. 4.94 crore.
- (b) The 2nd HM was related to certain items which were capitalised at the respective airports (Mangalore, Lucknow and Ahmedabad) from 01.04.2018 to the date of COD of respective airport. The assets so created at the respective airports were though handed over at the COD to the Concessionaire at the respective airports but the value of such assets transferred were not shown as recoverable in the books of the Corporation as on 31.03.2021. Government Audit stated that non-recognition of the assets in the books of the Corporation has resulted in understatement of recoverable.

7. The reply to the said HMs with detailed justification was provided to the Government Audit. Government Audits again raised the same observations in their Provisional Comments (PCs) in respect of PPP Airports. While submitting the Management reply to the said PCs, assurance was also given to Government Audit that a reference will be made to the Institute of Chartered Accountants of India (ICAI) to have their considered opinion on the issue during the F.Y. 2021-22.

8. During F.Y. 2021-22 also, 3 airports, Jaipur, Trivandrum and Guwahati airports were handed over to the Concessionaire under PPP arrangement and the accounting treatment for these 3 airports has also been given in line with the earlier handed over 3 PPP airports. The audit of annual accounts for the F.Y. 2021-22 has already been taken up by Government Audit.

B. Query

9. On the basis of the above, considered opinion of the Expert Advisory Committee of the ICAI is requested as to whether the accounting treatment given by the Corporation is appropriate, specifically, on the following transactions with respect to the executed Concession Agreement relating to Mangaluru International Airport:

- (a) Accounting treatment of upfront payment by Concessionaire for obtaining effective control over the Aeronautical Assets and Non-Aeronautical Assets for the performance of the agreement at written Down Value (WDV) and identification of the potential impact of applicable Accounting Standards (AS).
- (b) Accounting treatment of amount received/receivables on account of Capital Work in Progress (CWIP) as on COD and identification of the potential impact of applicable Accounting Standards (AS).

Also, whenever the Concessionaire puts CWIP assets into use after completion, whether the Corporation should capitalise the value with the expenditure incurred by the Corporation till COD and start claiming depreciation on such assets.

- (c) Accounting treatment of Monthly Concession Fee from Concessionaire as a consideration for the project awarded for a period of 50 years commencing from the COD and identification of the potential impact of applicable Accounting Standards (AS).

The accounting treatment given by the Corporation in its books of account in this regard is already brought out in paragraph 5 above.

C. Points considered by the Committee

10. The Committee notes that the basic issues raised by the querist relate to the accounting treatment by the Corporation under the executed Concession Agreement relating to Mangaluru International Airport in respect of payment by the Concessionaire to the Corporation of monthly concession fee and towards aeronautical assets, non-aeronautical assets and CWIP as on COD; and the treatment when the Concessionaire puts CWIP assets into use after completion. The Committee has, therefore, considered only these issues and has not examined any other issue that may arise from the Facts of the Case, such as, accounting from the perspective of the Concessionaire, deferred tax implications, accounting for assets forming part of city side development which shall be transferred to the Corporation at the end of lease term and in respect of which the Corporation shall pay to the Concessionaire, etc. Further, since the Corporation prepares its financial statements as per the Accounting Standards issued by the ICAI, the Opinion hereinafter has been expressed from that perspective and the Committee has not examined the applicability of Ind AS to the Corporation. At the outset, the Committee wishes to point out that the opinion has been expressed in the context of Concession Agreement for Mangaluru Airport which has been referred to by the querist and not in respect of any other concession agreement for any other airport.

At the outset, the Committee wishes to point out that the arrangement in the extant case may be a service concession arrangement wherein the grantor grants right to use of its assets to another party (operator) in return of payments including charges (fixed by the grantor/regulator) to be collected by the operator from the customers for the services rendered

by the operator by using the assets under the arrangement which shall ultimately revert to the grantor. While the other accounting frameworks contain accounting for such arrangements (e.g., Accounting Standard for Local Bodies (ASLB) 32, 'Service Concession Arrangements: Grantor', issued by the ICAI), the existing Accounting Standards, issued by the ICAI, which is the accounting framework being applied by the entity in question, do not contain specific requirements in respect of 'Service Concession Arrangements' from the perspective of grantor. Therefore, the opinion expressed hereinafter is based on the requirements of existing Accounting Standards. The Committee has, however, examined the application of the said standards considering the arrangement as a whole rather than considering each individual asset involved keeping in view the nature of the transaction.

11. The Committee notes the following salient features of the Concession Agreement (CA):

- The Concession Agreement defines project assets to include rights over the site in the form of lease, right of way or otherwise, aeronautical and non-aeronautical assets, tangible assets such as civil works and equipment, project facilities at the site, buildings and immovable fixtures, all rights, financial assets such as receivables, security deposits, insurance proceeds and applicable permits.
- The Corporation signed Concession Agreement (CA) with the Concessionaire for Operations, Management and Development of the Airport through Public Private Partnership (PPP) for a period of 50 years. As per the CA, the Concessionaire shall pay to the Corporation, during the Concession Period, a monthly concession fee based on passenger throughput.
- As per clause 28.11 of CA, the Concessionaire shall be liable to pay to the Corporation an amount equivalent to the investments made by the Corporation in the Aeronautical Assets as of the COD and considered by the Regulator as part of the Regulatory Asset Base, subject to requisite reconciliation, true-up and final determination by the Regulator of the quantum of such investment. Further clause 28.11.5 states that "Upon reimbursement of such amount by the Concessionaire to the Corporation, the Deemed Initial RAB will, *in addition to the investments made by the Concessionaire, be considered for the purpose of determination of Aeronautical Charges by the Regulator.*"
- As per clause 28.12 of CA, the Concessionaire shall pay to the Corporation an amount equivalent to the estimated depreciated value of investments made by the Corporation in the Airport as of the COD towards development of Non-Aeronautical Assets i.e. Initial Non-Aeronautical Investments.
- Clause 6.4.5 states that "Notwithstanding anything to the contrary in this Clause 6.4, the Concessionaire shall be liable to pay to the Corporation such amounts as may have been incurred by the Corporation as on the COD in respect of the contracts relating to works-in-progress as have been set forth in Schedule T. Such amounts shall be intimated by the Corporation with supporting documents and details within 30 (thirty) days of COD and shall be due and payable by the Concessionaire to the Corporation within a period of 90 (ninety) days thereon. ... The Concessionaire shall be responsible to incur any additional cost towards completion of such work-in-progress assets after COD." Further it states that, "Upon reimbursement by the Concessionaire to the Corporation, of amounts as may have been incurred by the Corporation as on the COD for such work-in-progress assets as provided for above, and completion of such works-in-progress by the Concessionaire, such works-in-progress assets shall form part of the Airport. The

amounts reimbursed by the Concessionaire to the Corporation and *additional amounts incurred by the Concessionaire for completion of such works-in-progress assets shall be considered as investments made by the Concessionaire in creation of such assets for the purpose of determination of Aeronautical Charges by the Regulator*. In the event that any part of the amounts reimbursed by the Concessionaire to the Corporation pursuant to this Clause 6.4.5 are not considered for pass-through by the Regulator due to any act or omission on the part of the Corporation, the adjustment towards any differences in the amounts reimbursed by the Concessionaire to the Corporation and the amounts considered for pass-through by the Regulator shall be undertaken as part of the Balancing Payment that becomes due and payable as per Clause 31.4 immediately after the determination of the Aeronautical Charges by the Regulator. ...”

- Clause 10.1 of the Concession Agreement states that the site of the Airport shall comprise the real estate in respect of which the Right of Way is provided and granted by the Corporation to the Concessionaire as a lease under and in accordance with this Agreement.
- Clause 10.2.2 of the Concession Agreement states that in consideration of the Monthly Concession Fee, this Agreement and the covenants and warranties on the part of the Concessionaire herein contained, the Corporation, in accordance with the terms and conditions set forth herein, shall grant to the Concessionaire, commencing from the COD, lease rights in respect of all the land (along with any buildings, constructions or immovable assets, if any, thereon) comprising the Site.
- As per Clause 27 of the Concession Agreement, the Concessionaire agrees to pay to the Corporation, during the Concession Period, a monthly concession fee as per the formula stated in the Agreement
- As per Clauses 27.6.1 and 27.6.2, in the event that the Passenger Traffic Change is negative by 20% (twenty percent) or more for a consecutive period of 2 Concession Years, the Agreement may be terminated by the Concessionaire within 180 days of the expiry of the second such Concession Year, by giving a notice of 30 days. Upon such Termination, the Corporation shall be liable to pay to the Concessionaire an amount equal to 70% of the Termination Payment.
- As per clause 35.3.3, upon termination on expiry of the Concession Period by efflux of time:
 - (a) The Corporation shall pay to the Concessionaire an amount equivalent to 50% (fifty percent) of the lower of:
 - (i) the depreciated book value, if any, of such Project Assets forming part of the City Side Development, which have been capitalised in the books of the Concessionaire by the 30th anniversary of COD; and
 - (ii) the value of such Project Assets forming part of the City Side Development, which have been capitalised in the books of the Concessionaire by the 30th anniversary of COD, as determined by an Approved Valuer who shall be selected and appointed by the Corporation within fifteen days of the Transfer Date, and who shall submit its determination within 30 days of appointment thereto.

- (b) No termination payment shall be made by the Corporation to the Concessionaire for Aeronautical Assets, Non-Aeronautical Assets ... and any works-in-progress by the Concessionaire as on the Transfer Date. For avoidance of doubt, all Aeronautical Assets, Non-Aeronautical Assets ... and any works-in-progress by the Concessionaire as on the Transfer Date shall be handed over by the Concessionaire to the Corporation free of cost.

(Emphasis supplied by the Committee.)

12. With regard to the contention of the auditor regarding transfer of assets and recognising recoverable/receivables in respect of the same, the Committee notes the following requirements of Accounting Standard (AS) 10, 'Property, Plant and Equipment', issued by the ICAI:

“74. The carrying amount of an item of property, plant and equipment should be derecognised

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

75. The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised (unless AS 19, Leases, requires otherwise on a sale and leaseback). Gains should not be classified as revenue, as defined in AS 9, Revenue Recognition.”

The Committee notes that the Concession Agreement in the extant case requires the Concessionaire to pay to the Corporation an amount equivalent to the estimated depreciated value of investments made by the Corporation in Non-Aeronautical Assets as of the COD, investments made by the Corporation in the Aeronautical Assets as of the COD and considered by the Regulator as part of the Regulatory Asset Base and amounts incurred by the Corporation as on the COD for work-in-progress assets in the Airport. The Corporation has undertaken several obligations towards the Concessionaire under the Concession Agreement. At the end of the concession tenure, upon efflux of time, all these assets will be transferred back to the Corporation free of cost. Further, in case, there is a fall in the passenger traffic by 20% or more, the Concessionaire has an option to terminate the agreement.

Based on the above features of the Concession Agreement, it seems to the Committee, that the Corporation has not fully conveyed the risks and rewards of the capital work-in-progress and other aeronautical and non-aeronautical assets to the Concessionaire and future economic benefits from the above-mentioned assets are still expected to flow to the Corporation. Accordingly, the Committee is of the view that the question of derecognising the assets and recognising income/revenue or receivable on transfer of the airport assets as per the requirements of AS 10 does not arise.

13. The Committee further notes the following requirements of AS 19, 'Leases', issued by the ICAI:

“3.1 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

3.2 A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

3.3 An operating lease is a lease other than a finance lease.

3.4 A non-cancellable lease is a lease that is cancellable only:

- (a) upon the occurrence of some remote contingency; or
- (b) with the permission of the lessor; or
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- (d) upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.

3.5 The inception of the lease is the earlier of the date of the lease agreement and the date of a commitment by the parties to the principal provisions of the lease.

3.6 The lease term is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

3.7 Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- (a) in the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or
- (b) in the case of the lessor, any residual value guaranteed to the lessor:
 - (i) by or on behalf of the lessee; or
 - (ii) by an independent third party financially capable of meeting this guarantee.

However, if the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable that, at the inception of the lease, is reasonably certain to be exercised, the minimum lease payments comprise minimum payments payable over the lease term and the payment required to exercise this purchase option.”

“3.19 Contingent rent is that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).”

“8. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than its form. Examples of situations which would normally lead to a lease being classified as a finance lease are:

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased asset is of a specialised nature such that only the lessee can use it without major modifications being made.

9. Indicators of situations which individually or in combination could also lead to a lease being classified as a finance lease are:

- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- (b) gains or losses from the fluctuation in the fair value of the residual fall to the lessee (for example in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- (c) the lessee can continue the lease for a secondary period at a rent which is substantially lower than market rent."

"39. The lessor should present an asset given under operating lease in its balance sheet under fixed assets.

40. Lease income from operating leases should be recognised in the statement of profit and loss on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished."

The Committee notes from the above that the Concession Agreement in the extant case has effectively conveyed to the lessee (operator) in return for a payment or series of payments, the right to use an asset for the concession period. Therefore, it would constitute a lease agreement under AS 19. The next question is the classification of lease into finance lease and operating lease, which is discussed in the subsequent paragraphs.

14. The Committee notes from the above-reproduced requirements of AS 19 that the classification of lease depends upon the extent to which risks and rewards incident to ownership of a leased asset lie with lessor or lessee. Therefore, a key criterion to determine the type of lease is whether or not it transfers substantially all the risks and rewards incident to ownership. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than its form. Further, paragraphs 8 and 9 of AS 19 contain certain examples of situations and indicators which would normally lead to a lease being classified as finance lease, such as, transfer of ownership of the asset by the end of lease term. Thus,

classification of an arrangement as operating or finance lease requires exercise of judgement based on evaluation of facts and circumstances in each case, by considering the indicators / factors enumerated above.

The Committee notes from the above that the Concession Agreement does not transfer the ownership of the aeronautical, non-aeronautical assets and capital works-in-progress assets (including any additional investment made by the Concessionaire) to the Concessionaire. Also, there is no purchase option or extension option that is provided to the Concessionaire. Further, the airport assets are not of a specialised nature such that only the Concessionaire can use it without major modifications being made.

The Committee further notes that as per Clause 27.6 of the Concession Agreement, in the event that the Passenger Traffic Change is negative by 20% (twenty percent) or more for a consecutive period of 2 Concession Years, the Agreement may be terminated by the Concessionaire within 180 days of the expiry of the second such Concession Year, by giving a notice of 30 days. Upon such termination, the Corporation shall be liable to pay to the Concessionaire an amount equal to 70% of the Termination Payment. This indicates that the underlying risk of low passenger throughput at the airport would, at least partially, vest with the Corporation. Also, the rewards in the form of high throughput at the Airport over the concession period would also be passed on to the Corporation in the form of higher monthly fees.

Accordingly, the Committee is of the view that considering the above factors on overall basis, the lease in the extant case would, in substance, not satisfy the tests laid down in paragraphs 8 and 9 of AS 19 for finance lease and hence, would need to be classified as operating lease.

15. The Committee also notes that as per requirements of AS 19, a lessor is required to present an asset given under operating lease in its balance sheet under fixed assets. Therefore, in the extant case, the Corporation shall continue to recognise the capital works-in-progress and other assets at the Airport (which are transferred back to the Corporation at the end of Concession Term free of cost) in its financial statements as its fixed assets and charge depreciation on the same as per the requirements of AS 10. Further, as per the requirements of AS 19, lease income from operating leases should be recognised in the statement of profit and loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished. Therefore, the initial amount received from the Concessionaire towards capital works-in-progress and other assets should be recognised over the tenure of the concession, as per the requirements of AS 19.

The Committee also notes that as per the requirements of AS 19, the minimum lease payment excludes contingent rent, which is that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest). Therefore, the minimum lease payment in the extant case would not include the monthly concession fees since they are contingent on the passenger throughput and the minimum lease payment shall constitute of upfront payment towards the value of investments in aeronautical and non-aeronautical assets and towards the value of capital work-in-progress at the Airport as on the COD.

16. The Committee notes that another issue that the querist has raised is, whether, whenever the Concessionaire puts CWIP assets into use after completion, Corporation should capitalise the value with expenditure incurred by the Corporation till COD and start claiming

depreciation on such assets. In this respect, the Committee notes that AS 10 states the following:

“7. The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and***
- (b) the cost of the item can be measured reliably.”***

The Committee notes that under various clauses of CA, the Concessionaire shall pay to the Corporation an amount equivalent to the estimated depreciated value of investments made by the Corporation in the Airport as of the COD towards development of Non-Aeronautical Assets i.e. Initial Non-Aeronautical Investments, towards value of Aeronautical Assets as of the COD and considered by the Regulator as part of the Regulatory Asset Base and amounts incurred by the Corporation as on the COD for work-in-progress assets in the Airport. As per clause 28.1.1 of CA, “On and from COD and till the Transfer Date, the Concessionaire has the sole and exclusive right to demand, collect and appropriate Fees from the Users for the provision of the Aeronautical Services and Non-Aeronautical Services, including the airlines and passengers, in accordance with the provisions of the Regulatory Framework and this Agreement...” Further, as per Clause 6.4.5 of CA, the amounts reimbursed by the Concessionaire to the Corporation and *additional amounts incurred by the Concessionaire for completion of such works-in-progress assets shall be considered as investments made by the Concessionaire in creation of such assets for the purpose of determination of Aeronautical Charges by the Regulator.*

These terms in the CA suggest that the assets that the Concessionaire constructs at the airport site are used for the purpose of providing public services in the Concession, and usage charges for such assets are regulated by the Corporation/Regulator. The Concessionaire is being compensated for these assets by way of considering the cost of construction of these assets for the purpose of setting rates or charges to be collected from the users. During the Concession Period, the Concessionaire shall pay to the Corporation, a monthly concession fee based on the passenger throughput. At the end of the Concession Period, the Concessionaire is obliged to hand over these assets to the Corporation. Thus, the future economic benefits associated with these assets also flow to the Corporation.

Further, the Committee notes that the criteria in paragraph 7 of AS 10 states that property, plant and equipment is recognised if and only if, (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and (b) the cost of the item can be measured reliably.

In the extant case, as discussed above, the probability of future economic benefits exists. Further, in exchange for these assets, the Corporation compensates to the Concessionaire by granting the right to earn revenue from third-party users of these assets. Therefore, based on the above, the Committee is of the view that the Corporation should capitalise the value of these assets constructed by the Concessionaire and also recognise depreciation on such assets as per the requirements of AS 10.

D. Opinion

17. (a), (b) and (c) On the basis of above, the Committee is of the opinion that as discussed in paragraph 14 above, the assets under the Concession Agreement in the extant case, in substance, do not satisfy the tests laid down in paragraphs 8 and 9 of AS 19 and hence, should be classified as operating lease by the Corporation, i.e., the lessor. As discussed in paragraph 15 above, the Corporation should continue to recognise the capital work-in-progress and the other airport assets in its financial statements as fixed assets and the initial amount received from the Concessionaire should be recognised over the tenure of the concession, as per the requirements of AS 19.

As discussed in paragraph 16 above, the Corporation should capitalise the value of the assets constructed by the Concessionaire and also recognise depreciation on such assets as per the requirements of AS 10.
