

## **ASPECTS OF RECOGNITION AND ACCOUNTING OF THE CONCESSION AGREEMENT**

To ensure economic growth on the basis of application of new technologies and technical achievements, the state creates special investments for certain types of activities. Specifications that have financial and legal in nature are stipulated in agreements of different types. One of such agreements is known as a concession contract. Its essence is as follows: The state (the grantor) provides the investor (the concessionaire) on a reimbursable basis the exclusive right to activate in certain industries. Reimbursement is carried out either by financial compensation or by granting the right to use the investment objects that are state property. Specific features, which are peculiar to the concession agreement only (participants-the state and business structure, object of the contract-state property, exclusive right to carry out activities), predetermine the need of development of a separate procedure for recording transactions related to its implementation. This is also required by the principle of reliability of the provision of information in financial reporting.

We will disclose consistently the aspects, which determine accounting in the conditions of execution of the concession agreement (CA). It is a well-known fact that depending on which approach (legal or economic) prevails in the preparation of financial reporting, the methodology of accounting relates. Therefore, *the first aspect of the issue under study is the legal and economic interpretation of the concession agreement.*

The classical theory of law refers the concession agreement to administrative contracts (legal interpretation), according to the result of which the investor is not an equal partner of the state. The act that serves as the basis for obtaining equal rights is the authoritative act of the state- concession (an authorized assignment of rights), which in terms of accounting is identified as an intangible asset. Today, when the demand and supply on the international investment market determine the content of the contract, the CA is recognized as a legal act (economic interpretation), on the basis of which a license that secures the transfer of rights to carry out activities or use of resources is issued. This approach demonstrates the prevalence of the economic content of an event over the legal form of presentation and meets the basic principle of reporting, i.e. the priority of content over the form. Every real event needs to be reconstructed into an economic one to demonstrate its impact on the content of financial reporting, which is feasible on the basis of identification. *The identification procedure is the second aspect of this study.* Proceeding from the contract specifications for the execution of the concession agreement, the investor recognizes in its reporting either an intangible asset, with its rights to use resources as compensation, or a financial asset with financial compensation from the state. This approach is enshrined in **IFRIC 12 «Concessional services agreements»**, which provides two models of execution of the concession agreement: the model of an intangible asset and the model of a financial asset. According to the rules established by IFRIC 12, in the absence of the right to receive cash or other financial assets from the concession

provider, when the concessionaire receives the remuneration for the provided services as a payment directly from the users of the infrastructure facility, it is recognized as an intangible asset. If such a right exists, the remuneration is recognized as a financial asset.

According to the economic content, the concession agreement is a contract for an investment project, the economic effect of which will manifest itself only in the future and the issue of its *reliable assessment is the next aspect of the topic under study*. Therefore, market risks and uncertainties are the basis of the evaluation of any investment project. To determine the cost of such projects, the practice has developed several mathematical models: discounted cash flows, decision tree, Black-Scholes-Merton, binomial and Monte-Carlo.

The choice of a particular model of evaluation is influenced by the presence of strategic risks, uncertainties and probabilities of the projected event's outcomes, which in the case of a concession agreement are minimized. In author's opinion, for a reliable evaluation of the performance of the concession agreement, it is advisable to apply the method of discounted cash flows, which, according to economic theory, is used at low market risks and low level of uncertainty. The conclusion is based on:

- The definition of the concession agreement, in which its features, leveling the effect of various risks are embodied.

- The analysis of the shortcomings of the practical nature (sensitivity to changes in the parameters of the financial model of the discount rate, the rate of growth of cash flows) of the indicated method and theoretical one (ignores the likely nature of the investment project), but which can be neglected in the conditions of execution of the CA.

This position is in line with the provisions of **International Financial Reporting Standards (IFRS) 9 «Financial Instruments: Classification and Evaluation»**, which recommends the application of the discounted cash flow method for financial assets, which, in essence, is a contractual right to receive financing.

The *next aspect to be disclosed is the development of an accounting mechanism* for transactions related to the execution of the concession agreement. The author in his works investigated the organization of modeling of accounting for transactions in the implementation of the concession agreement and disclosed the mechanisms for reflecting of the operations for execution of the concession agreement on the basis of the provisions of IFRIC 12.