

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB



SUBJECT

FASB CLARIFIES ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS

SUMMARY

The FASB recently issued ASU 2017-10¹ to clarify that the grantor in a service concession arrangement is the operating entity's customer for purposes of revenue recognition. The ASU is available [here](#), and becomes effective generally in conjunction with an entity's adoption of the new revenue standard in Topic 606.

DETAILS

Background

Topic 853² defines a service concession arrangement as being between a public-sector grantor and an operating entity, whereby the operating entity operates the grantor's infrastructure (e.g., airports, roads, bridges, tunnels, prisons, hospitals) for a specified period of time. For such arrangements within the scope of Topic 853, the operating entity should not account for the infrastructure as a lease or as property, plant, and equipment, but should apply other relevant guidance. For example, an operating entity should account for revenue relating to construction, upgrade, or operation services in accordance with the revenue recognition guidance. However, Topic 853 currently does not address how an operating entity should determine its customer in such an arrangement, for example, the owner of a toll road or the drivers who use it. This omission has led to diversity in practice.

CONTACT:

ANGELA NEWELL
National Assurance Partner
214-689-5669 / ajnewell@bdo.com

ADAM BROWN
National Director of Accounting
214-665-0673 / abrown@bdo.com

¹ Determining the Customer of the Operation Services

² Service Concession Arrangements

Main Provisions

ASU 2017-10 amends Topic 853 to clarify that when applying Topic 606³, an operating entity in a service concession arrangement should consider the grantor to be its customer for the services it provides in all cases. This includes the construction of the infrastructure, if any, as well as operating services.

The FASB ultimately concluded the operating entity is acting as the grantor's service provider to operate and maintain the infrastructure, which is controlled by the grantor, and the only parties to the executed service concession arrangement are the grantor and the operating entity.

EFFECTIVE DATE AND TRANSITION

The effective date of ASU 2017-10 depends on whether an entity has already adopted Topic 606:

- ▶ For an entity that has not adopted Topic 606 before the issuance of this ASU, the effective date and transition requirements for the amendments generally are the same as the effective date and transition requirements for Topic 606. An entity may apply this ASU earlier, including within an interim period, even though the entity has not yet adopted Topic 606, but specific transition requirements apply.
- ▶ For an entity that has adopted Topic 606 before the issuance of this ASU, the effective date of the amendments is as follows:
 1. For a public business entity⁴ the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.
 2. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

³ Revenue from Contracts with Customers

⁴ Including a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission.

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 67,700 people working out of 1,400 offices across 158 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit www.bdo.com.

Material discussed in this tax alert is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.