



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 58 [2015]

Consumption of Economic Benefits of Intangible Assets

The issue:

The submission considers service concessions which are awarded to concessionaires for the construction, maintenance and operation of toll roads in particular. Under the service concession, the concessionaire is required to construct the toll road, maintain and operate it during the concession period. At the end of the concession period, the toll road revert to the government (grantor). As compensation, the concessionaire has the right to collect toll from road users over a fixed period at prescribed rates.

The right to collect toll is recognised as an intangible asset in accordance with MFRS 138 Intangible Asset. Based on the guidance in MFRS 138.97, the amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used.

The amendments to MFRS 138, effective for annual period beginning on or after 1 January 2016, introduced a new guidance on how to determine the appropriate amortisation method taking into consideration the limiting factor inherent in the intangible asset.

The issue is to determine the appropriate amortisation method for concession asset based on the amended MFRS 138.

Current accounting practice as observed by the Submitter:

The commonly seen amortisation methods in relation to toll road concession asset prior to the adoption of the amendments in MFRS 138:

1. Revenue based method - based on the projected toll revenue over the concession period
2. Volume based method - based on the projected traffic volume over the concession period

Reasons for the FRSIC to address the issue:

The issue affects all service concession companies that have recognised the right under the concession agreement as an intangible asset. Hence, it is expected to be practical and widespread.

The new guidance introduced by the amended MFRS 138 should improve financial reporting by promoting consistency in application for service concessionaires in Malaysia.

Submitter's proposal or recommendation to address the issue:

MFRS 138.98A introduces a rebuttable presumption that an amortisation method that is based on the revenue generated is not appropriate. It can only be rebutted in limited circumstances:

- (a) the concession asset is expressed as a measure of revenue; or
- (b) it can be demonstrated that revenue and consumption of the economic benefits are highly correlated.

The new guidance introduces the identification of a limiting factor that is inherent in an intangible asset in determining the appropriate amortisation method. Based on the terms of the service concessions, the right to collect toll is not limited by toll revenue that can be collected or traffic volume during the concession period. Hence, neither revenue nor volume is the predominant limiting factor that is inherent in the concession asset. Para 98C specifically states that revenue generated might be an appropriate basis for amortising the intangible asset if revenue has been established as a predominant limiting factor in the contract. In the case of a toll road concession asset in Malaysia, the right to collect toll is limited by the concession period. This means time is the key limiting factor that is inherent in the concession asset.

Toll revenue reflects the generation of economic benefits from using the concession asset and not consumption of the economic benefits embodied in the concession asset. Toll revenue typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the concession asset, e.g. the prescribed rates are impacted by inflationary factors which has no bearing to the economic benefits embodied in the concession asset.

Therefore, applying the guidance in para 98A - 98C, straight line method based on passage of time is the appropriate amortisation method for a toll road concession asset, the usage of which is limited by time.

Submitted on:

11 November 2015

Corresponding Guidance:

PROJECT WAS DISCONTINUED.

FRSIC has deliberated this issue and decided to discontinue the project as it has not reached a consensus due to the variability of terms in different service concession agreements.