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**THE ECONOMIC ESSENCE OF ACCOUNTING OBJECTS ON THE STAGES OF THE CONCESSION CONTRACT LIFE CYCLE****OLGA MIKHALEVICH, SVETLANA VEGERA**  
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*In the last decade the economy has developed a special quality of interaction between the public and the private sector, called public-private partnership. Nowadays there are processes of structural change and the development of new businesses in the economy.*

The concession is not a new form of management. It exists in various forms, perhaps, about the same as the state exists. This is due to the fact that the state has always delegated the management of its property or of the other economic entities, and the state itself has had the mandatory side of the concession contract. For example, in France the concession practice has already lasted for more than a century. Even in 1882, it was contracted by the municipal authorities to the Perret brothers for more than 15 years, who undertook it to supply Paris with water, still about 70% of the population in Paris have been provided with water concessions from private firms.

In our country there is a process of formation of the state innovation policy aimed at improving the quality and the standard of living, at overcoming the technological country lag, the transition to a qualitatively new level of resource conservation, the growth of labor productivity, the capital productivity, the reduction of material consumption, the energy consumption, the capital intensity of production, the achievement of its high competitiveness.

The development of these sectors of the economy is impossible without creating the appropriate infrastructural support. Russian infrastructural objects are characterized by a high degree of wear and the low degree of use and management efficiency. As shown from the international and historical experience, the most effective mechanism for innovation in the infrastructural sectors is a form of public-private partnership, such as the concession. However, there are still many questions about the methodology of public-private partnership as a whole and the concessional relations in particular, so they are treated differently in the paper-works of Belarusian, Russian and foreign researchers and the legislature. Today, there is still no single approach to the usage and the implementation of the state regulations of the concession mechanism even in the country's legislation, in order to successfully implement the various forms of public-private partnership.

In the existing educational and scientific literature there exists no universal approach to the definition of the concession and the stages of the concession contract life cycle. The Law of the Republic of Belarus "On concessions" is the only normative legal document that defines the essence of the concept of the concession. The Law of the Republic of Belarus "On Concessions" № 63-W came into force on the 12<sup>th</sup> of July, 2013. Chapter 1 defines the concession as "the right, based on the concession contract, to possess and to use the object of the concession or the right to exercise the activity". In accordance with Art. 1027 of the Civil Code the contract of franchise "is a contract in which the franchisor undertakes to provide the user of commercial organizations and (or) individual entrepreneurs with the exclusive right to use something in their entrepreneurial activity; the complex of exclusive rights are: the right to act on behalf of company's name, the right of the commercial designation of the holder, the right to protect commercial information, to use the trademark, the service mark, etc." [4]

Regarding the regulation of concession contracts in the IFRS, one can specify two basic standards: IFRIC (IFRIC) 12 "Service Concession Arrangements for the provision of services" and SIC (SIC) 29 "Disclosures, that means the concession agreements on the provision of services". However, these documents regulate only concession agreements in the field of public services related to the provision of infrastructure such as the development, the construction and future maintenance of roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply systems and telecommunication networks [6]. Extractive industries do not apply to this area of activity that is why they can not be resolved by those provisions in the development of the accounting system under a concession agreement, thus the extractive industries should be guided by these analogies.

There are four main stages of objects under the concession:

1) the formation of objects under the concession in the Republic of Belarus and the concessional objects of administrative-territorial units, their adoption, publication in print media and their replacement in Internet lists, their identification on the concession contract and the identification of the selection method of the concessionaire;

2) the determination of the concession authority, the development, coordination and approval of concession proposals;

3) the organization and the conduction of the auction, the definition of the concessionaire;

4) the submission of the concession contract.

## Economics

The Law of the Republic of Belarus "On concessions" dated July 12, 2013 has established the following three types of concession contract which may be conducted on the territory of the Republic of Belarus:

- the full concession contract;
- the concession contract on product sharing;
- the concession contract for the provision of services (works). [5]

The Standard Concession Agreement (full concession agreement) is generally similar to the lease contract: a private enterprise assumes all risks and costs on the design, construction, equipping and commissioning of the facility.

*The Concession production sharing agreement.* When signing the agreement, the contractor pays the state a bonus, often referred to as a subscription. Some treaties provide the payment of a relatively small signing bonus and give later a further payment. It is called the start or bonus for development [5, p. 48].

Despite the fact that the right to the object never goes to the contractor, the concession agreement on product sharing includes mostly provisions for expulsion royalty to the state of the host country. Typically, the royalty rate agreement varies from 0 up to 14–15%. Royalties are usually paid in cash [5, p. 51–52].

All product sharing agreements contain an article on cost recovery. This is a procedure that allows the contractor to compensate the part of the costs.

The agreement shall specify which costs are recoverable, the procedure for their repayment, limit cost recoveries and the ability to transfer non-refundable deferred costs. In most cases it is assumed that recoverable costs that are not offset during the current year may be paid out during the coming periods. In addition, in some contracts it is allowed to share some compensation costs which are somehow linked to the development stage.

In most contracts the procedure for cost recovery is especially important for the contractor since it sets the proportion of costs that can be compensated. The most common procedure for the reimbursement is as follows:

- 1) the operating expenses of the current year;
- 2) the unreimbursed expenses for preparation and development facilities;
- 3) the unreimbursed expenses for the construction and facility maintenance;
- 4) any investment loans [5, p. 58–59].

The concession contract of services is similar to the concession agreement of product sharing. For example, the contractor should pay the signing bonus and the state receives royalties. The difference lies in the fact that payments are made to the contractor in the form of remuneration for services rather than as a percentage from the profit after the product selling.

The majority of service contracts with risks have fixed expiry date. Often the contract for the provision of services related to activities is aimed at restoring the territories of the concession object [58, p. 73–74].

The concession contract for the provision of services often includes the fee which is calculated according to the actual costs of operating expenses and capital expenditures. The difference between them does not correspond to the usual accounting concepts adopted in daily practice. In each contract the definition of operating costs and capital expenditures should be given, establishing the category of expenses.

Operating expenses include the costs of:

- 1) labor, materials and services used in everyday product operations, storage, handling, transportation and processing of hydrocarbons, measurements and other activities, including maintenance of the equipment;
- 2) the general management and head office in the host country crafts, general services, including technical and other services, material supply, transportation, rent of special and heavy equipment, personnel, public relations and other expenses incurred abroad;
- 3) the equipment which has been operating at least for a year;
- 4) all the technical and arbitrary costs which are not included in the number of specially mentioned as a capital expenditures [5, p. 76–77].

*The Instruction of income accounting and expenses №102 and IFRIC 12 "Service Concession Arrangements for the provision of services".* The income and the expenses according to their nature, to their conditions and to the management of the organization are divided into:

- benefits and losses of operating activities;
- benefits and losses of investment activities;
- benefits and losses of financial operations [7].

The type of the concluded concession agreement in each country depends to a greater extent on the owner's rights as well as on the legislature and on tax policies which govern the ownership and the usage of accounting entities. The state is usually the owner in the concession contract, but sometimes it can share its ownership and just be in partnership relations with someone else [5, p. 43].

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