

ACCOUNTING MATTERS RELATED TO SERVICE RENDERING AND TURNKEY CONTRACTS UNDER THE TERMS OF PUBLIC-PRIVATE PARTNERSHIPS

Panus Corina, PhD Student
e-mail: corinapanus.diug@gmail.com

Academy of Economic Studies of Moldova
61 Banulescu Bodoni Street, 2005 Chisinau, Republic of Moldova
Web page: www.ase.md

Abstract: *Service rendering and turnkey contracts is one of the legal forms for carrying out activities of societal interest through the public-private partnership. On 12 November 2018, the Ministry of Finance of the Republic of Moldova approved the Methodical guidelines on accounting peculiarities for implementing public-private partnerships, which were supposed to provide answers to many questions, but yet again they comprise interpretable subject-matters. One of the issues discussed to this end and tackled in this Article relates to the use of accounts and the way of mirroring the accounting records related to service rendering and turnkey contracts under the terms of public-private partnerships.*

Key words: *turnkey contract, service rendering, public-private partnership, public partner, private partner.*

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1. INTRODUCTION

The association of public and private environments shall facilitate the investment process and address the societal issues more quickly. Such association may take place via public-private partnerships under the terms of service rendering and turnkey contracts.

Taking into account different interpretations of National and International Accounting Standards, and also some Methodical guidelines uncertainties, such as how to properly account and mirror business transactions in the private partner accounting records, both the Academia and Practitioners experience difficulties related to keeping records of service rendering and turnkey contracts under the terms of public-private partnerships.

Therefore, this Article shall address some matters related to service rendering and turnkey contracts and the peculiarities thereof, show how to use the accounts *and mirror the accounting of transactions on the basis of specific examples of service rendering and turnkey contracts under the terms of public-private partnerships*, in compliance with the provisions laid down by the Methodical guidelines on accounting peculiarities for implementing public-private partnerships (hereinafter referred to as the Methodical guidelines) [2], the Law on public-private partnership No.179/2008 (hereinafter referred to as Law No.179/2008) [4], the Civil Code No.1107/2002 [1], the National Accounting Standards (NASs) [7] and the Chart of Accounts [6].

2. APPLIED METHODS

This research is built upon a theoretical and applicative approach, which enables reviewing the content of legislative and regulatory acts, and their actual application.

3. OUTCOMES AND DISCUSSIONS

Pursuant to Law No.179/2008, *the public-private partnership* is a long-term agreement concluded by a public partner and a private partner to carry out activities of public interest, based on the capacities of each partner to allocate the resources, risks and benefits in an appropriate manner [4, Article 2].

Article 1352 of the Civil Code defines the turnkey contract as an agreement on which basis the party called the Entrepreneur/Contractor undertakes on its own risk to carry out certain works for the other party called the Customer, and the latter undertakes to receive/accept the works and pay the agreed price [1, Article 1352].

The Law on Public-private Partnership, No.179/2008, stipulates that the public-private partnership, performed through the service rendering/turnkey contract, has as subject-matter certain public services, which are rendered by a utility entity against payment, overhaul works for consideration, servicing infrastructure components and other assets under the public-private partnership terms, keeping records on resource consumption, submitting invoices to consumers [4, Article 18].

Pursuant to the Methodical Guidelines, the service rendering contract under the terms of public-private partnerships is an agreement for consideration, while the size of payment for the rendered services shall be agreed by the parties or established by regulatory acts, being settled following the service rendering, unless the parties provide otherwise [2, Paragraph 12].

If the service rendering/turnkey contract is concluded under the terms of public-private partnerships, it shall be compliant with the requirements of the relevant legal framework and its content must comprise at least one of the ways of carrying out the public-private partnership: *design-construction-operation, construction-operation-renewal, construction-operation-delivery, or construction-delivery-operation*. Otherwise the service rendering/turnkey contract would not belong to the public-private partnership scope and would be managed pursuant to other economic and legal administration criteria [4, Article 19].

According to the Methodical Guidelines, there are service rendering contracts and turnkey contracts.

The core accounting rules for service rendering transactions at the private partner are as follows [2, Paragraph 27]:

- Registration of costs related to the public service rendering contract – as an increase of costs of core activities or auxiliary activities and a decrease of inventories, increase of amortisation, liabilities, etc.;
- Settlement of contractual costs related to the rendered public services – as an increase of sales costs and decrease of costs of core activities or auxiliary activities (the actual cost of the rendered public services);
- Recognition of proceeds from rendering public services – as a concurrent increase of receivables and operating income.

For instance, an entity (private partner) renders services to a public healthcare settlement, i.e. installs dialysis equipment. In 2020 the entity rendered and delivered public services worth MDL 102 000, including VAT MDL 17 000, to a public partner. The service costs amounted to MDL 74 200.

Based on the aforementioned data, in 2020 the private partner shall recognise the income from the installation of equipment and its receipt by the public partner in the amount of MDL 85 000 and register it as concurrent increase of affiliated parties receivables and of operating income. The costs in the amount of MDL 74 200 shall be entered as increase of sales costs and decrease of costs of auxiliary activities.

On the basis of the aforementioned example, the private partner shall account the business transactions in the manner displayed in Table 1 below.

Table 1. Private Partner Accounting Records related to Service Rendering Contracts

No.	Transaction	Primary documents related to transactions	Amount, MDL	Correspondent Accounts	
				Debit	Credit
1	2	3	4	5	6
1.	Mirroring the cost of installing the dialysis equipment	Invoices, Delivery-acceptance protocols of construction works, Inventory settlement acts, Log for amortisation calculation	74 200	811	124, 211, 213, 214, 521, 821, etc.
2.	Mirroring the registration of proceeds derived from the installation of dialysis equipment	Tax invoice issued by the private partner	85 000	2345	611
3.	Mirroring the registration of VAT amount for the installation of dialysis equipment	Tax invoice issued by the private partner	17 000	2345	534
4.	Mirroring the settlement of the service cost for the installation of dialysis equipment	Accounting Note	74 200	711	811
5.	Mirroring the extinction of the receivable related to the installation of dialysis equipment	Payment Order, Account statement	85 000	242	221
<p><i>124 Amortisation of fixed assets; 211 Materials; 213 Low-value and short-term items; 214 Wear and tear of low-value and short-term items; 2345 Receivables related to the public-private partnership; 242 Current accounts in national currency; 521 Current trade liabilities; 534 Accounts payable towards the budget; 611 Proceeds from sales; 711 Costs of sales; 811 Core activities; 821 Indirect production costs;</i></p>					

Source: developed by the Author.

Pursuant to the Methodical Guidelines, when the private partner receives assets from the public partner, which are necessary to render the contracted service, the private partner shall account those assets in an off-balance-sheet account [2, Paragraph 26].

Taking into account the complexity of turnkey contracts in comparison with the service rendering contracts, the related revenues/proceeds and expenses shall be recognised by the private partner only when the outcome of the contract can be appraised with certainty, based on the contract execution period, which could fall within a reporting period and go beyond it. If the turnkey contract is carried out through several reporting periods, the contractual revenues and expenses shall be recognised depending on the stage of completion of contract activity. Pursuant to this method, the contractual revenues and expenses shall be recognised for each stage of completion [2, Paragraph 16].

As the turnkey contracts under the terms of public-private partnerships can be performed through one of the ways listed above, we shall tackle the **construction-delivery-operation** method; hence, the private partner shall account the transactions as follows [2, Paragraph 23]:

a) Construction Phase:

- Registration of costs related to the construction of the object – as increase of costs/ of property, plant and equipment in progress and decrease of inventories, increase of amortisation, liabilities, etc.;
- Delivery of the constructed object to the public partner – as increase of current receivables and decrease of costs/ of property, plant and equipment in progress;
- Recognition of the object of the turnkey contract received from the public partner for use – as concurrent increase of fixed assets and current liabilities;
- Mutual compensation of receivables and liabilities related to the object of the turnkey contract – as concurrent decrease of liabilities and of current receivables.

b) Operation Phase:

- Calculation of amortisation of the object received from the public partner – as concurrent increase of current expenses/costs and amortisation. The utilisation period of the received object shall be established as per the NAS "Intangible and tangible fixed assets", but it shall not exceed the duration of the public-private partnership contract;
- Registration of proceeds derived from the operation of assets received from the public partner – as concurrent increase of cash or current receivables and of operating income;
- Settlement of amortisation at the time of returning the object to the public partner upon the expiry of the contract – as concurrent decrease of accrued amortisation and of object value.

For instance, pursuant to the turnkey contract under the terms of a public-private partnership, a public partner provided a land plot worth MDL 300 000 to a private partner, and the latter undertook to design and build a multifunctional Sports Centre located at the second and third floors, the space of the ground floor and the first floor being intended for car parking. The private partner invested MDL 112 500 000. Upon completing the construction of the building, it is transferred in the public partner ownership. Subsequently, the public partner shall transfer it to the private partner to be used for a 25-year term.

Upon the expiry of the contract, the public partner shall register the building (the multifunctional Sports Centre located at the second and third floors, the space of the ground floor and the first floor being used for car parking) at the market price, i.e. MDL 10 600 200, while the useful operation period is 20 years.

The private partner shall pay royalty to the public partner in the amount of 15 per cent of the proceeds collected from the sale of sports subscription tickets and payments for car parking. During the first year of operation, the proceeds derived from the sale of sports subscription tickets and payments for car parking amounted to MDL 9 210 000, while the operating costs, including amortisation, equalled to MDL 4 320 000.

In compliance with the accounting policy, the private partner recorded the costs incurred for the design and construction of the building in the account "Costs related to turnkey contracts". The proceeds derived from the sale of sports subscription tickets and payments for car parking received from the private partner shall be recorded in the account "Receipts from rendering services related to other activities".

Pursuant to the data of the aforementioned example, the private partner shall account the business transactions as shown in Table 2.

Table 2. Private Partner Accounting Records related to Turnkey Contracts

No.	Transaction	Primary documents related to transactions	Amount, MDL	Correspondent Accounts	
				Debit	Credit
1	2	3	4	5	6
1.	Mirroring of costs related to the construction of the building (Sports Centre and car parking lot)	Invoices, Delivery-acceptance protocols of construction works, Inventory settlement acts, Log for amortisation calculation	112 500 000	840	211, 213, 124, 521, etc.
2.	Mirroring the building value (Sports Centre and car parking lot) delivered to the public partner	Tax invoice issued by the private partner	112 500 000	2345	840
3.	Mirroring the building value (Sports Centre and car parking lot) received from the public partner	Tax invoice issued by the public partner	112 500 000	123	521
4.	Mutual compensation of liabilities and receivables of the public partner	Mutual settlement acts signed by both parties	112 500 000	521	2345
5.	Calculation of annual amortisation of the building (MDL 112 500 000 : 25 years)	Log for amortisation calculation	4 500 000	811	124
6.	Mirroring the building operating costs (Sports Centre and the car parking lot)	Tax invoices, Inventory settlement acts, Accounting notes, Staff salary calculation note, etc.	10 600 200	811	211, 213, 124, 521, etc.
7.	Registration of proceeds derived from the rendered services (Sports Centre and car parking lot)	Cash receipts, control strips, reports issued by the cash and control register with fiscal memory, collection order, bank statement, tax invoices	9 210 000	241, 242, 2345	841

8.	Registration of income share belonging to the public partner (9 210 000 lei x 15%)	Accounting Note	1 381 500	841	521
9.	Registration of income share belonging to the private partner (9 210 000 lei x 85%)	Accounting Note	7 828 500	841	611
10.	Settlement of the liability towards the public partner regarding the proceeds from other activities	Payment Order, Account statement	1 381 500	521	242
11.	Overall settlement of operating costs (4 500 000 lei + 10 600 200)	Accounting Note, Statements from the Logs of Accounts 811, 711	15 100 200	711	811
12.	Settlement of building amortisation at the end of the PPP contract upon the expiry of the established term of operation	Statements from the Logs of Accounts, Protocols of fixed asset delivery into operation	112 500 000	124	123
<i>123 Fixed assets; 124 Amortisation of fixed assets; 211 Materials; 213 Low-value and short-term items; 214 Wear and tear of low-value and short-term items; 2345 Receivables related to the public-private partnership; 241 Cash register; 242 Current accounts in national currency; 521 Current trade liabilities; 534 Accounts receivable towards the budget; 611 Proceeds from sales; 711 Costs of sales; 811 Core activities; 840 Costs related to turnkey contracts; 841 Receipts from the rendered services.</i>					

Source: developed by the Author.

To keep records on costs related to the building, as per the Methodical Guidelines, the private partner can introduce the necessary accounts into its accounting policy. Hence, the following accounts have been suggested for use:

- 840 "Costs related to turnkey contracts"
- 841 "Receipts from the rendered services"

It is worth noting that according to the amendments operated to the Chart of Accounts, account 2345 "Receivables related to public-private partnerships" was introduced to account the relevant transactions, which has been used in the aforementioned examples [6].

4. CONCLUSIONS

The service rendering and turnkey contract is a form of carrying out public-private partnership relations. The legislation in force and the regulatory acts in place comprise provisions enabling the practical use of this more flexible type of contract.

In the course of the research we mentioned the matters related to the service rendering and turnkey contract, in particular, the way of using the accounts, and mirroring the accounting of core operations on the basis of specific examples of service rendering and turnkey contracts under the terms of public-private partnerships.

If the Accounting Methodology for transactions related to service rendering and turnkey contracts under the terms of public-private partnerships is properly implemented, then this form of association would enable reaching the targeted performance indicators for the benefit of the society, and of public and private partners.

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