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IFRS & IFRIC for Non-Finance Professionals — the guide

The detailed companion to the deck: IFRS 16 leases, IFRIC 12 service concessions, a road example, worked numbers and an FAQ.

Mayank Jain

Project finance · renewables · platform management

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A Plain-English Guide to

IFRS & IFRIC

for Non-Finance & Non-Accounting Professionals

With a focus on renewable energy, infrastructure and financial modelling — figures illustrative, in $ millions

What you will learn: what IFRS and IFRIC really are and why they exist; how revenue, construction costs and interest behave; how the effective-interest method works (with a two-scenario example); how IFRS 16 leases and IFRIC 12 service concessions reshape a model; a road-concession example from India's NHAI; how accounts convert from local GAAP to IFRS; plus worked numbers, real-life analogies, challenges and solutions, an FAQ, and the mistakes people make most often.

Developed by Mayank Jain · mjsir.org · linkedin.com/in/mayankjain17

The detailed companion to the slide deck of the same name — connect on LinkedIn for a deeper discussion.

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1. Start here: the names, untangled

Before anything else, let us clear up four words that get mixed up constantly — IFRS, IAS, IFRIC and GAAP. Once these click, the rest of the subject is mostly common sense.

Term	What it stands for	What it really is
IFRS	International Financial Reporting Standards	The global rulebook for how companies prepare their accounts.
IAS	International Accounting Standards	The older standards (pre-2001) that are still in force — part of the same IFRS family.
IFRIC	IFRS Interpretations Committee	The expert panel — and the official clarifications it issues — that explain how to apply IFRS to tricky, real situations.
GAAP	Generally Accepted Accounting Principles	A national rulebook (e.g. US GAAP, UK GAAP, or India's Ind AS). Different country, different rules.

Key idea

A quick note on wording: people often say "convert GAAP into IFRIC." Strictly, you convert GAAP into **IFRS** (the standards). IFRIC interpretations are part of IFRS — they are the fine print that tells you how to handle the awkward cases. Throughout this guide, "moving to IFRS" includes following the relevant IFRIC interpretations.

Real-life analogy

Think of a country's legal system:

- IFRS is the **constitution and the laws** — the broad rules everyone must follow.
- IFRIC interpretations are the **court rulings** — when the law is unclear for a specific case, a ruling tells you exactly how to apply it.
- GAAP is **another country's legal system** — it governs the same behaviour, but with different rules. Crossing the border means re-reading your situation under the new system.

2. What is IFRS, and why does it exist?

IFRS is a single, global set of accounting standards issued by the International Accounting Standards Board (IASB). Its goal is simple: make the financial statements of a company in Mumbai readable and comparable to one in Tokyo, London or São Paulo — without an investor needing to learn a new system for every country.

More than 140 countries require or permit IFRS. India uses **Ind AS**, its own IFRS-converged standards, while the United States uses **US GAAP**. That patchwork is why "GAAP-to-IFRS conversion" is such a common task — a parent, lender or buyer in one system constantly meets a project reported in another.

Real-life analogy

IFRS is the **metric system of business**. If one country measures in feet and another in metres, trade is painful and error-prone. Agree on one unit — metres — and everyone instantly understands everyone else. IFRS is that shared unit for company performance.

What IFRS actually controls

IFRS sets the rules for the three statements every set of accounts is built from:

- **Balance sheet (Statement of Financial Position)** — what you own and owe on a given day.
- **Income statement (Profit & Loss)** — how much you earned and spent over a period.
- **Cash flow statement** — where the actual cash came from and went.

It answers questions like: When can I call something an asset? When do I record revenue? How do I value a 25-year lease or a future clean-up cost? Getting consistent answers is what makes two companies genuinely comparable.

3. What is IFRIC, and how does it work?

No rulebook can foresee every situation. When a genuinely new or ambiguous transaction appears — and people start applying the standard inconsistently — the **IFRS Interpretations Committee (IFRIC)** steps in. It studies the issue, consults the public, and publishes an official interpretation that everyone must then follow. The result is called an "IFRIC" (numbered, e.g. IFRIC 12).

How an interpretation comes to life

1. A question is raised — e.g. "Is a long-term power purchase agreement secretly a lease?"
2. IFRIC reviews whether the standards already answer it, and whether the problem is widespread.
3. A draft interpretation is published for public comment.
4. After feedback, a final interpretation is issued and becomes mandatory.

> **Real-life analogy**
>
> IFRIC is the **referee plus the official rulebook footnotes** in a sport. The main rules (IFRS) cover 95% of play. But when an unusual move happens and two teams read the rule differently, the referee issues a clarification so that, from now on, *everybody* plays that situation the same way.

IFRIC interpretations that renewable-energy and infrastructure people actually meet

Interpretation	The question it settles	Why it matters
IFRIC 12 — Service Concession Arrangements	Who "owns" an asset a government lets you build and operate, then hands back?	Roads, ports, grids, public solar — every Build-Operate-Transfer (BOT) concession.
IFRIC 4 (now inside IFRS 16) — embedded leases	Does a supply contract contain a lease even though nobody called it one?	A PPA tied to one specific plant can be a lease in disguise — changing how it hits the model.
IFRIC 1 — changes in decommissioning liabilities	What happens when the future clean-up estimate changes?	Wind/solar farms must dismantle at end of life — the provision moves over time.

4. Why this matters — in renewables and infrastructure

Big, long-lived projects — solar and wind farms, highways, ports, transmission grids — are unusually sensitive to accounting choices, for three reasons:

- **They are huge and long-lived.** A solar farm or a highway is billions of dollars of assets running for 25–35 years. Small differences in how you capitalise, depreciate or discount become very large numbers.

- **They are financed by global money.** Banks and equity investors fund them through *project finance*, and they demand IFRS-style accounts so they can compare one project against another worldwide.
- **They are full of "accounting-heavy" features.** Long land leases, construction-phase interest, future decommissioning, government concessions and complex revenue contracts — every one of these is governed by a specific standard.

> **Key idea**
> Accounting here is not a back-office formality — it directly drives the numbers investors live and die by: **EBITDA, net profit, gearing, debt covenants and the Equity IRR**. Get the standard wrong and the model lies to its owner. A road developer and a solar developer wrestle with exactly the same rules — which is why this guide uses both.

5. The standards that shape a project model

These are the IFRS standards you will meet again and again when modelling a solar, wind or infrastructure project. You do not need to memorise them — just recognise what each one does.

Standard	What it covers	Effect on a project model
IAS 16 / IAS 38	Property, plant & equipment; intangible assets	Decides which development & build costs become an asset (capex) vs an expense.
IAS 23	Borrowing costs	Interest during construction is added to the asset, not expensed — "IDC".
IFRS 16	Leases	Long land leases create a right-of-use asset and a lease liability on the balance sheet.
IFRS 15	Revenue from contracts	Sets when and how revenue (power sales, toll, construction) is recognised.
IFRS 9	Financial instruments	Governs project debt, hedges, concession receivables and the effective-interest method.
IAS 37 / IFRIC 1	Provisions; decommissioning	Future clean-up cost is recognised today as a discounted provision.
IAS 20	Government grants & incentives	How tariffs, capital grants and subsidies are recognised.
IFRIC 12	Service concession arrangements	Concession/BOT projects — asset may be a receivable or intangible, not PP&E.
IAS 12	Income taxes	Deferred tax on every IFRS-vs-tax difference — easy to forget, always present.

6. The mechanics that drive every model

Four mechanics turn up again and again: how revenue is recognised, what happens to costs during construction, how finance cost works, and how the effective-interest method splits a single cash flow. Master these and the rest of the guide falls into place.

6.1 How revenue recognition works (IFRS 15)

The golden rule: you recognise revenue when you **deliver the goods or service** — not when the cash arrives. IFRS 15 sets this out in five steps:

1. Identify the contract with the customer.
2. Identify the separate performance obligations (the distinct promises).
3. Determine the transaction price.
4. Allocate that price across the obligations.
5. Recognise revenue as each obligation is satisfied.

Some revenue is earned **over time** (as you deliver), and some at a **point in time** (on hand-over):

- Selling electricity: revenue is recognised **over time**, as each unit (MWh) is delivered to the grid or the offtaker.
- Building infrastructure in a concession: **construction revenue** is recognised over time by stage of completion — which is why the concession models in Section 9 show revenue during the build.
- In a concession, **construction, operation and maintenance are treated as separate services**, each recognised under IFRS 15.

> **Key idea**
> This is why a service-concession operator can report profit **before the asset even opens**: it is being paid — in cash, or in a receivable or intangible — for the construction service it is performing right now.

6.2 Costs during construction: capitalised or expensed?

The general rule is simple: costs that **create the asset** are capitalised (added to the asset and spread over its life); costs of **running the business** are expensed as you incur them.

Cost	Treatment	Why
Materials, equipment, construction labour	Capitalise	These bring the asset into existence (IAS 16).
Interest on money borrowed to build (IDC)	Capitalise during the build (IAS 23)	The borrowing is part of the cost of getting the asset ready.
Operation & maintenance once running	Expense	These keep the business going, not the asset being built.
Interest after commissioning	Expense (finance cost)	Capitalisation stops once the asset is ready for use.

> **Watch out**
> There is an IFRIC 12 twist (Section 8): under the **intangible-asset model** build-phase interest is **capitalised**; under the **financial-asset model** it is **expensed**. Same construction, opposite treatment — so always confirm the model first.

6.3 Finance cost and the effective interest method

“Finance cost” is the cost of using money over time. It is more than loan interest — it also includes the **unwinding** of discounts on liabilities measured at present value, such as lease liabilities (IFRS 16) and decommissioning provisions (IAS 37).

The tool that ties it together is the **effective interest rate (EIR)**.

What the EIR is

The EIR is the single rate that exactly discounts all of an instrument’s expected future cash flows back to its current carrying amount. Instead of recognising interest by the headline coupon, you recognise it at a constant **rate of return** across the instrument’s whole life.

What it includes — and what it does not

- **Includes:** the contractual interest payments, plus transaction costs, arrangement and origination fees that are integral to the deal, and any discount or premium on issue.
- **Excludes:** expected future credit losses (handled separately, through IFRS 9 impairment) and any costs that are not integral to the instrument (e.g. general overheads).

How it is used each period

- Interest for the period = EIR × opening carrying amount.
- Carrying amount then moves by (interest accrued − cash paid or received).

Section 6.4 works this through in numbers — and the same mechanics drive the financial-asset concession in Section 9 and the NHAI annuity road.

> **Real-life analogy**
> It works just like a **home loan**: the rate stays constant, but your early payments are mostly interest and your later payments are mostly principal. The effective-interest method simply formalises that split for the accounts.

6.4 EIR in action — two scenarios

Section 6.3 explained the idea; here it is in numbers. Take one simple five-year project loan and watch what happens first if you ignore the effective-interest method, then if you apply it properly.

The loan and all its costs

Item	Amount ($m)
Face value (principal borrowed)	1,000
Upfront arrangement / transaction fee (paid to lender)	40
Net cash actually received = 1,000 − 40	960
Coupon: 5% on face value, paid each year-end	50 per year
Tenor; principal repaid at the end	5 years

Which costs go into the EIR? **All the costs that are integral to the loan**:

- the five coupons of $50m each ($250m in total), and
- the $40m arrangement fee (it acts like a discount — you received only $960m but must repay $1,000m).
- Excluded: any expected credit loss, and overheads not integral to the loan.

Total finance cost over the life is the same under either method: $1,250m paid out ($250 coupons + $1,000 principal) less $960m received = **$290m**. The only question is the **timing**.

Scenario 1 — WITHOUT the EIR (the naive way)

The fee is dumped straight into Year-1 profit, and only the coupon is treated as interest afterwards. The loan sits at its $1,000m face value the whole time.

Year	Fee in P&L	Coupon	Finance cost in P&L	Loan on BS
1	40	50	90	1,000
2	—	50	50	1,000
3	—	50	50	1,000
4	—	50	50	1,000
5	—	50	50	1,000
Total	**40**	**250**	**290**	—

The problem: Year 1 looks artificially expensive ($90m), the true cost of the loan is misstated year to year, and the balance sheet ignores that you only ever received $960m.

Scenario 2 — WITH the EIR (the IFRS 9 way)

The fee is rolled into the loan. The liability starts at the **$960m actually received** and is carried at amortised cost using the EIR of **≈ 5.95%**. Each year the finance cost is EIR × opening balance; the $50m coupon is paid in cash; the small gap accretes the loan up towards $1,000m.

Year	Opening (BS)	Finance cost @5.95% (P&L)	Coupon paid (CF)	Accretion	Closing (BS)
1	960.0	57.1	50.0	7.1	967.1
2	967.1	57.5	50.0	7.5	974.6
3	974.6	58.0	50.0	8.0	982.6
4	982.6	58.4	50.0	8.4	991.0
5	991.0	59.0	50.0	9.0	1,000.0
Total	—	**290.0**	**250.0**	**40.0**	—

At the end of Year 5 the loan stands at exactly $1,000m and is repaid with the principal.

Where each piece lands — P&L, cash flow and balance sheet

Line ($m)	Scenario 1 (no EIR)	Scenario 2 (EIR)
Year-1 finance cost (P&L)	90.0	57.1
Year-5 finance cost (P&L)	50.0	59.0
Total finance cost, 5 years (P&L)	290.0	290.0
Cash interest paid each year (CF)	50.0	50.0
Arrangement fee in cash, Year 1 (CF)	40.0	40.0
Loan liability at the start (BS)	1,000.0	960.0
Loan liability just before repayment (BS)	1,000.0	1,000.0

Key idea

Three things to take away: (1) the **total cost is identical** ($290m) — the EIR changes *timing*, not the total; (2) the **cash flow is identical** in both scenarios — EIR is purely a P&L/balance-sheet presentation tool; (3) the EIR spreads the fee **smoothly**, so each year's profit reflects the genuine cost of the money, while the naive method lumps it all into Year 1.

Real-life analogy

It is like the **processing fee on a home loan**. You pay it once in cash on day one — but its real "cost" belongs to all the years you use the loan. The effective-interest method is simply the accountant's way of spreading that fee fairly across the life of the borrowing.

7. IFRS 16 — Leases up close

Leases are everywhere in these projects — the land under a solar farm, the seabed under offshore wind, right-of-way for a highway, even site offices and vehicles. **IFRS 16**, effective from 1 January 2019, changed how a tenant (the "lessee") accounts for them, with a big effect on both the balance sheet and the shape of profit.

What changed

Under the old rules, most leases were "operating leases" kept **off the balance sheet** — you simply charged the rent as an expense. IFRS 16 ended that for lessees: now **almost every lease goes on the balance sheet**.

The core mechanic

At the start of a lease, the lessee records two things:

1. **A lease liability —** the present value of all the future lease payments, discounted at the rate implicit in the lease (or the company's own borrowing rate).
2. **A right-of-use (ROU) asset —** broadly the same amount, representing your right to use the asset for the lease term.

Then, over the life of the lease:

- The ROU asset is **depreciated**, usually straight-line over the lease term.
- The liability is **unwound**: each payment splits into an interest charge (a finance cost) and a repayment of the liability — the very same effective-interest mechanic from Section 6.

So a single flat rent is replaced by **depreciation plus interest** — and because interest is highest when the liability is largest, the total cost is **front-loaded** into the early years.

> **Real-life analogy**
> A long lease is treated like **buying a car on a loan rather than hiring one by the day**. Even though you do not legally own the car, for years you control it and owe the payments — so IFRS 16 shows both the *asset you control* and the *debt you owe*, instead of pretending it is just a monthly bill.

Why modellers care

- **EBITDA rises** — rent leaves opex and reappears below the line as depreciation and interest.
- **Gearing rises** — a new lease liability looks like debt, which matters for loan covenants.
- **Profit is front-loaded** — early years carry more cost than a flat rent would.

Two useful exemptions

Short-term leases (12 months or less) and **low-value assets** (for example laptops) can be left as a simple straight-line expense — no asset or liability required. A full worked example with numbers — a 25-year land lease — appears in Section 10.1.

> **⚠ Watch out**
> The **discount rate** drives the whole calculation, and leases with inflation-linked or reviewable rents must be **remeasured** when the cash flows change. Picking a rate once and forgetting to update it is a common modelling slip.

8. IFRIC 12 — Service Concession Arrangements up close

Of all the interpretations, **IFRIC 12** is the one most likely to turn a project's accounts on their head — and the one people most often get wrong. It was issued in 2006 and has applied to accounting periods beginning on or after **1 January 2008**.

What kind of deal it covers

IFRIC 12 governs **public-to-private service concession arrangements**: a government (the **grantor**) hires a private company (the **operator**) to build or upgrade, then run and maintain, public infrastructure — **roads, bridges, airports, hospitals and energy networks**. These are the classic "Build-Operate-Transfer" (BOT) deals.

They come in a few standard shapes:

- **BOT (Build-Operate-Transfer) —** the operator builds the asset, runs it for the concession period, then hands it back to the government.
- **BOOT (Build-Own-Operate-Transfer) —** the same idea, except the operator legally owns the asset during the concession before transferring it back.
- **ROT (Rehabilitate-Operate-Transfer) —** the operator takes an existing asset, refurbishes or upgrades it, operates it, then transfers it back.



A one-page view of IFRIC 12 — the control test routes the arrangement into the financial-asset or intangible-asset model.

The two-part control test

An arrangement only falls under IFRIC 12 if BOTH of these are true:

1. **Service control —** the government controls or regulates what service you must provide with the asset, who you provide it to, and the price you can charge.
2. **Residual control —** the government controls any significant leftover value in the asset when the concession ends (for example, the asset reverts to the state).

The surprising headline rule

> **Key idea**
>
> Even if the operator builds the asset from scratch and pays for every dollar, it does *not* put the infrastructure on its own balance sheet as property, plant & equipment. The reason: it does not **control** the asset — the government does. The operator is treated as a service provider, not an owner.

> **Real-life analogy**
>
> Picture a **company that builds and runs a public school for the city under a 25-year deal**. They built it and they operate it — but it was never *their* school. The city decides who attends and what the fees are, and takes the building back at the end. So instead of a "school asset," the company records what it is really owed: either a stream of payments from the city, or the right to collect fees from users.

So what goes on the balance sheet instead? Two models

It depends on **who carries the demand risk** — that is, who loses out if usage turns out to be low:

	Financial asset model	Intangible asset model
Applies when…	The operator has an unconditional right to receive cash from the grantor — guaranteed payments, or a guaranteed top-up of any shortfall in user revenue.	The operator only gets the right to charge users for the public service.
Who bears demand risk	**The government**	**The operator**
What is recognised	A financial asset (a receivable) — first at fair value, then at amortised cost using the effective-interest method (IFRS 9).	An intangible asset (IAS 38), amortised over the concession period.
How income arises	Each receipt splits into interest income plus repayment of the receivable.	Revenue from charging users; the intangible is amortised as a cost.

A single contract can also be **split ("bifurcated")**: part guaranteed by the government (a financial asset) and part dependent on user demand (an intangible asset).

When does IFRIC 12 actually apply?

This is exactly where people slip up. Let the control test decide:

- It usually APPLIES to **government-controlled concessions** — an NHAI highway, a public solar park, a transmission line, or a grid network you build under a BOT concession where the state sets the tariff and takes the asset back at the end.
- It usually does NOT apply to a **plain IPP or merchant plant you own outright** — even with a long government PPA — if you keep control of the asset and its significant residual value. Those stay as ordinary property, plant & equipment under IAS 16.

> **Key idea**
>
> The deciding question is never "did we sign a contract with a government?" It is always the **two-part control test**: does the government control the service, the price and the significant residual interest? If yes → IFRIC 12. If no → it is your asset under IAS 16.

9. IFRIC 12 in numbers

9.1 One project, three ways — a worked comparison

Numbers make this real. Below is the same infrastructure project accounted three different ways: as an IFRIC 12 intangible asset, as an IFRIC 12 financial asset, and — for contrast — as an ordinary fixed asset you own under IAS 16. Watch how the same cash flows produce three very different income statements.

The shared facts

Parameter	Assumption
Construction cost	$1,000m total — $500m per year in Years 1–2
Operating period	8 years (Years 3–10)
Annual cash inflow	$200m per year in Years 3–10 (user fees, or grantor payments)
Financing	Operator funds the build with debt and equity at 6.7% per year
Timing	All cash flows occur at year-end; working capital is nil

Model A — Intangible asset (the operator charges users)

The operator carries the **demand risk** — it gets the right to charge users, so its income depends on how much the public actually uses the service.

- During the build (Years 1–2) it recognises **construction revenue of $525m** against $500m of cost — a $25m construction profit each year (IFRS 15, by stage of completion).
- Interest during construction is **capitalised** (IAS 23) — about $34m is added to the asset.
- At completion, ≈ **$1,084m** is reclassified to an intangible asset (IAS 38) and amortised over the 8 operating years — ≈ $135m a year.
- In operation (Years 3–10) it recognises **$200m** of user-fee revenue a year.

Year	Journal entry	Debit ($m)	Credit ($m)
1	Contract asset / Construction revenue	525	525
1	Capitalised borrowing costs	34	34
2	Reclassify to intangible asset	1,084	1,084
3+	Amortisation expense	135	135

Model B — Financial asset (the government pays)

Here the government guarantees the cash, so the operator carries **no demand risk** — it simply holds a receivable from the grantor.

- Construction revenue is still recognised ($525m against $500m cost), but because payment is deferred there is a **significant financing component**: finance income accrues at an effective interest rate of ≈ 6.18% (the method from Section 6.4).
- Interest during construction is **expensed**, not capitalised (IAS 23) — the opposite of Model A.
- At completion, ≈ **$1,082m** is reclassified to a financial asset (a receivable) held at amortised cost (IFRS 9).
- Each $200m received then splits three ways: ≈ $67m finance income, ≈ $121m repayment of the receivable, and ≈ $12m for that year's operating services.

Year	Journal entry	Debit ($m)	Credit ($m)
1	Contract asset / Construction revenue	525	525
2	Reclassify to financial asset	1,082	1,082

Year	Journal entry	Debit ($m)	Credit ($m)
3	Cash received	200	—
3	→ Finance income	—	67
3	→ Operations revenue	—	12
3	→ Reduction of financial asset	—	121

Model C — Fixed asset under IAS 16 (you own it)

For contrast: if *you* controlled the asset and its residual value, IFRIC 12 would not apply — it is simply your property, plant & equipment.

- During the build there is **no construction revenue** — costs are gathered as construction-in-progress, and borrowing is capitalised (≈ $34m).
- **≈ $1,034m** becomes a fixed asset, depreciated over 8 years — ≈ $129m a year.
- In operation you recognise **$200m** of revenue a year.

Year	Journal entry	Debit ($m)	Credit ($m)
1	Construction in progress	500	500
1	Capitalised borrowing costs	34	34
2	Reclassify to fixed asset	1,034	1,034
3+	Depreciation expense	129	129

The punchline, side by side

Aspect	Intangible asset	Financial asset	Fixed asset (IAS 16)
Construction revenue?	Yes	Yes	No
Asset type	Intangible (IAS 38)	Receivable (IFRS 9)	PP&E (IAS 16)
Build-phase interest	Capitalised	Expensed	Capitalised
Spread over operating life	Amortisation	Amortised cost	Depreciation
Demand risk sits with	Operator	Government	Owner
Finance income?	No	Yes (effective interest)	No

> **Key idea**
> Same project, same cash — three different stories. The model decides whether you show **construction profit**, whether build-phase interest is **capitalised or expensed**, and whether your operating years carry **depreciation, amortisation or finance income**.

9.2 A road example from India — NHAI highway concessions

IFRIC 12 is not only a renewables idea — the clearest real-world example is **roads**. The National Highways Authority of India (NHAI) hands highways to private developers to build, operate and eventually transfer back. That is textbook IFRIC 12: NHAI sets the toll or the payments, the road serves the public, and the road reverts to NHAI at the end — so the developer does *not* record the highway as its own asset.

The two common NHAI structures map cleanly onto the two models:

NHAI structure	How the developer is paid	Traffic (demand) risk	IFRIC 12 model
BOT (Toll)	Collects toll directly from motorists	**Developer**	Intangible asset — right to charge users
BOT (Annuity)	NHAI pays fixed annuities, whatever the traffic	**NHAI (govt)**	Financial asset — a receivable
HAM (Hybrid Annuity)	~40% from NHAI during the build + ~60% as annuities + O&M payments	**Mostly NHAI**	Mainly financial asset (often bifurcated)

Take a **$2,000m** highway and watch the two worlds diverge:

- As a **toll road** (intangible model): the developer books an intangible asset, amortised over the concession; revenue *rises and falls with traffic*; build-phase interest is capitalised. A bad-traffic year is the developer's loss.
- As an **annuity / HAM road** (financial-asset model): the developer books a receivable from NHAI; each annuity splits into **finance income (using the EIR from Section 6.4)** and repayment of the receivable; build-phase interest is expensed. Traffic is NHAI's problem, not the developer's.

> **Real-life analogy**
> Same road, same $2,000m of concrete — but a **toll developer** is like a **shopkeeper** who lives or dies on how many customers walk in, while an **annuity developer** is like an **employee on a fixed salary** — paid regardless of footfall. The accounts look completely different because the *risk* sits in different places.

In India this is applied under **Ind AS** *(the IFRS-converged standards) through its service-concession guidance — the principles mirror IFRIC 12 exactly. Worked figures in Section 9.1 are adapted from ModelXcel; contract-type detail from a LinkedIn explainer by Muhammad Mohsin, FCA; scope from the IFRS Foundation and IAS Plus (Deloitte). Figures are illustrative — confirm any specific concession with your auditor.*

10. More worked examples

Three short examples show how single standards change the picture. The figures are illustrative and rounded, but the maths is real.

10.1 A 25-year land lease (IFRS 16)

Your wind farm sits on leased land: **$1m per year for 25 years**. Discount rate 7%.

	Old GAAP (operating lease)	IFRS 16
Balance sheet	Nothing recorded	Right-of-use asset & lease liability **≈ $11.65m**
Year-1 cost in P&L	Flat rent **$1.00m**	Depreciation $0.47m + interest $0.82m =**$1.28m**
Where it sits	All in operating costs	Split: depreciation + finance cost

Key idea

Under IFRS 16 the rent disappears from operating costs, so **EBITDA rises** — but a new liability appears, so **gearing rises too**. The cost is also "front-loaded" (higher early, because interest is highest when the liability is largest). Same lease, very different-looking accounts.

10.2 Future decommissioning (IAS 37)

At end of life you must dismantle the farm and restore the site — an estimated **$10m in 25 years' time**. You cannot ignore that cost until it happens; IFRS makes you recognise it now.

- Today: record a provision (liability) at its present value **≈ $1.84m**, and add the same amount to the asset.
- Each year: the provision grows as it gets closer — Year-1 "unwinding of discount" **≈ $0.13m**, charged as a finance cost.
- Over the asset's life: the extra asset is depreciated, spreading the clean-up cost across the years that benefited from the plant.

Real-life analogy

It is like **knowing you will owe a big restaurant bill at the end of a long meal**. A sensible person mentally sets the money aside from the first course, rather than being shocked at the end. IAS 37 forces that discipline into the accounts.

10.3 Interest during construction (IAS 23)

You borrow **$100m at 6%** and spend two years building before the plant earns a single dollar.

- Interest while building ≈ $6m per year. Over the 2-year build that is **≈ $12m**.
- Under IAS 23 you do *not* expense that $12m. You **capitalise** it — add it to the cost of the asset — because the borrowing made the asset exist.
- It is then depreciated over the plant's life, matching the cost to the revenue it helps generate.

Watch out

If a modeller expenses construction-phase interest instead of capitalising it, early-year profits look **artificially low**, the asset is understated, and depreciation in later years is wrong. This is one of the most common project-model errors.

11. How to convert GAAP into IFRS

“Conversion” means taking accounts prepared under a local GAAP and re-stating them so they follow IFRS. It is a structured project, not a single switch. Here is the path.

The six steps

1. **Scope & diagnostic.** Compare your current GAAP to IFRS and list every area that differs — leases, interest, provisions, revenue, financial instruments, tax.
2. **Choose accounting policies.** IFRS sometimes offers options (e.g. cost vs revaluation for assets). Decide, and apply consistently.
3. **Restate the opening balance sheet.** IFRS 1, “First-time Adoption”, governs your starting point — you build a fresh IFRS balance sheet at the transition date.
4. **Adjust each area.** Re-measure leases, capitalise construction interest, set up decommissioning provisions, re-time revenue, re-classify debt and concession assets.
5. **Rebuild the statements + deferred tax.** Flow every adjustment through the P&L and cash flow, and — critically — record the deferred tax each change creates.
6. **Reconcile and document.** Produce a clear bridge from GAAP equity and profit to IFRS equity and profit, with a note explaining every line. Auditors will ask for this.

A simple equity reconciliation (illustrative, $m)

A conversion is usually summarised in a “bridge” that explains how equity changes from GAAP to IFRS:

Line	Adjustment	Effect on equity ($m)
Equity under local GAAP	Starting point	100.0
Capitalise construction interest (IAS 23)	Asset up, past expense reversed	+12.0
Recognise lease asset & liability (IFRS 16)	Asset and liability added	(0.5)
Decommissioning provision (IAS 37)	Liability now recognised	(1.8)
Deferred tax on the above (IAS 12)	Tax effect of adjustments	(2.3)
Equity under IFRS	**Restated**	**107.4**

> **Key idea**
> Notice the last-but-one line. **Almost every IFRS adjustment creates a deferred-tax adjustment**. Forgetting it is the single most common conversion error — the bridge will not balance without it.

12. What to take care of (the do’s)

- **Mind materiality.** Spend effort where the numbers are big. Do not agonise over trivial items.
- **Pick a policy and stick to it.** Consistency across periods and projects is what makes accounts comparable.
- **Be deliberate about discount rates.** Leases, provisions and concession receivables are very sensitive to the rate — document why you chose it.
- **Always carry deferred tax.** Every timing difference between the books and the tax return creates deferred tax.

- **Keep an audit trail.** For every adjustment, save the calculation and the reasoning. Future-you and the auditor will thank you.
- **Talk to your auditors early.** Agree the tricky judgements (PPA classification, concession model) before you build, not after.
- **Model both views during transition.** Run GAAP and IFRS in parallel so you can explain every difference to lenders and the board.

13. Common mistakes people make

The mistake	Why it bites	The fix
Mixing up IFRS, IFRIC and GAAP	Applying the wrong rule, or a US-GAAP treatment inside an IFRS model	Confirm the framework first; follow IFRS + the relevant IFRIC.
Forgetting deferred tax	The GAAP-to-IFRS bridge will not balance	Add deferred tax to every adjustment (IAS 12).
Expensing construction interest	Profits and the asset are understated	Capitalise it under IAS 23 (IDC).
Ignoring the arrangement fee in interest	Year-1 profit is overstated as a cost; true rate hidden	Roll fees into the EIR (Section 6.4).
Ignoring decommissioning	A real future liability is missing	Recognise a discounted provision now (IAS 37).
Booking concession infrastructure as your own PP&E	Under IFRIC 12 the operator may not control the asset	Apply the control test; use the financial and/or intangible model.
Treating a toll road and an annuity road the same	They sit in opposite IFRIC 12 models	Check who carries traffic risk first.
Wrong discount rate	Lease, provision and receivable values swing widely	Justify and document the rate.

14. Challenges and how to solve them

These are the practical hurdles teams actually hit when they apply this in real projects — and the standard way to clear each one.

Challenge	Why it is tricky	How to solve it
Choosing the model — financial, intangible or bifurcated	Toll, annuity and HAM roads look similar but split very differently	Apply the control + demand-risk test; bifurcate where part is guaranteed; write the judgement down.
Recognising revenue in the construction year	“We are only spending — surely there is no revenue yet?”	Building is a service: recognise construction revenue by stage of completion (IFRS 15), with a contract asset.
Pricing the construction service (the margin)	What revenue to book for building your own concession asset	Use fair value — typically cost plus a reasonable margin.
Borrowing cost flips by model	Capitalised under the intangible model, expensed under the financial-asset model	Lock the model first, then apply IAS 23 consistently.
Setting the EIR when cash flows are uncertain	Traffic, inflation indexation and step-ups move the receivable	Use a best estimate at inception; reassess and book a catch-up when estimates change.
Major maintenance / resurfacing	A toll road must be resurfaced periodically	Provide for it under IAS 37 — it is an obligation, not a new capital asset.
Transition / first-time adoption	Opening balances must be rebuilt under IFRS 1	Restate the opening balance sheet at the transition date and keep the reconciliation bridge.
Explaining front-loaded, lumpy profits	Non-finance stakeholders see early “losses” and panic	Educate early; always present the cash view alongside the IFRS view.

15. Frequently asked questions

These are the questions people genuinely raise on professional forums and LinkedIn posts about IFRIC 12, IFRS 16 and the effective-interest method — answered in plain English.

Q. We built the road and we run it for 25 years — why can't we show it as our asset?

A. Because the control test says the government controls the service, the price and the residual value. You do not control the asset, so it is not your property, plant & equipment — even under a BOOT deal where you legally "own" it during the concession. You instead record a receivable or an intangible.

Q. In the construction year we only have costs — do we recognise any revenue yet? Is it an intangible or a contract asset?

A. Yes — building is itself a service. Under IFRS 15 you recognise construction revenue by stage of completion, with the matching entry as a **contract asset**. At completion that contract asset becomes a **financial asset** (if the grantor guarantees the cash) or an **intangible asset** (if you will charge users). So during the build it is a contract asset — not yet PP&E or a final intangible.

Q. Toll road or annuity / HAM road — which model do we use?

A. Toll = you bear traffic risk = **intangible model**. Annuity = NHAI pays regardless of traffic = **financial-asset model**. HAM is usually mainly financial asset, often bifurcated. Decide by who carries the demand risk.

Q. Do we really book a profit for building our own concession asset?

A. Yes. IFRS 15 treats the build as a service you provide to the grantor, so you recognise construction revenue (cost plus a reasonable margin). It feels odd, but it reflects that you genuinely performed a service.

Q. Why is interest capitalised in one model but expensed in the other?

A. Under the intangible model you are building a qualifying asset, so IAS 23 lets you **capitalise** build-phase interest. Under the financial-asset model you have essentially financed the grantor, so borrowing costs are **expensed**. Same spend, opposite treatment.

Q. What rate do we use to unwind the concession receivable?

A. The effective interest rate set at inception — the rate that discounts the expected receipts back to the asset's initial fair value (see Section 6.4). Reassess it if the expected cash flows change.

Q. The grantor only loosely sets our price — are we still inside IFRIC 12?

A. "Control or regulate" is deliberately broad. A price cap or a regulated tariff usually counts, even if you keep some pricing freedom. If the grantor regulates the price and controls the significant residual, you are likely in scope — but it is a judgement, so document it.

Q. Is our power purchase agreement (PPA) an IFRIC 12 arrangement?

A. Usually not. A PPA where you own and control the plant is your own asset (IAS 16), with revenue under IFRS 15 — though you should test it for an embedded lease (IFRS 16) or a derivative (IFRS 9). IFRIC 12 only bites when the two-part control test is met.

Q. Under IFRS 16, do all our leases now sit on the balance sheet?

A. Almost all, for the lessee — you record a right-of-use asset and a lease liability. The exceptions are short-term leases (12 months or less) and low-value assets, which can stay as a simple expense.

Q. Does the effective-interest method change our cash?

A. No. Cash is whatever you actually pay or receive. The EIR only changes how the cost or income is **spread across the P&L** and how the balance-sheet carrying amount moves — never the cash flow itself (see the two scenarios in Section 6.4).

FAQ themes drawn from practitioner questions on the IFRS Community forum and LinkedIn explainers (e.g. Kaleem Ullah Tipu, ACA; Muhammad Mohsin, FCA), reframed and answered in plain English. For a specific arrangement, confirm with your auditor.

16. Quick glossary / cheat sheet

Term	Plain-English meaning
IFRS	The global accounting rulebook.
IAS	Older standards, still part of IFRS.
IFRIC	The committee — and its rulings — that clarify how to apply IFRS.
GAAP / Ind AS	A national rulebook (e.g. US GAAP; India uses Ind AS, converged with IFRS).
Capitalise	Put a cost on the balance sheet as an asset, then spread it — instead of expensing it all at once.
Depreciation	Spreading a tangible asset's cost over the years it is used.
Amortisation	Spreading an intangible asset's cost over its life — the intangible equivalent of depreciation.
Provision	A liability for a probable future cost (e.g. decommissioning).
Discounting	Reducing a future amount to its value today, because money has time value.
Deferred tax	Tax that arises because the books and the tax return recognise things at different times.
Right-of-use asset	The asset you record under IFRS 16 for something you lease.
IDC	Interest During Construction — borrowing cost capitalised into the asset (IAS 23).
Finance cost	The cost of using money over time — interest plus the unwinding of discounts on leases and provisions.
Effective interest rate (EIR)	The constant rate that spreads interest (and fees) evenly over a financial instrument's life.
Financial asset model	IFRIC 12 treatment when the grantor guarantees the cash — the operator books a receivable (IFRS 9).
Intangible asset model	IFRIC 12 treatment when the operator charges users — it books an intangible (IAS 38).
Grantor / Operator	Grantor = the government awarding a concession; Operator = the private company that builds and runs it.
NHAI	National Highways Authority of India — a typical IFRIC 12 grantor for road concessions.
Equity IRR	The return investors earn on the cash they put in — the headline output of a project model.

Bottom line: IFRS is the shared language, IFRIC is the fine print that keeps everyone speaking it the same way, and the mechanics — revenue, capitalised costs, and the effective-interest method — decide how the same cash flows look on the page. Whether it is a solar farm or an NHAI highway, classifying the arrangement correctly is what makes a financial model trustworthy.

Disclaimer: this guide reflects Mayank Jain's general understanding and experience — he is not an accounting expert. For formal advice, please consult a qualified accounting professional; Mayank is happy to help connect you with the right person. This is an educational overview only.