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ACTUAL PROBLEMS OF ACCOUNTING OF CONCESSION ASSETS AND LIABILITIES IN THE REPUBLIC OF KAZAKHSTAN

Abstract. This research considers issues of accounting update in public sector of the economy of the Republic of Kazakhstan under the conditions of the development of public-private partnership in form of concessionary agreement. The accounting procedures of concessionary objects, concessionary commitments, profits and losses in accordance with International public sector accounting standards (IPSAS) and International financial reporting standards (IFRS) are reviewed and recommendations on problems of concessionary contract recording are provided.

Keywords: concessionary assets, concessionary liabilities, model of financial liability, model of empowerment, concession grantor, concession owner (operator), accounting due to concession agreements, acknowledgement of assets and liabilities, profits and losses, IPSAS 32, IFRS.

1. Introduction. The development of Public-private partnership in the Republic of Kazakhstan is focused on the improvement of public infrastructure and objects of life sustainment by the way of sphere enlargement and improvement of quality of public meaningful services. The main focus of the annual official Message of President of the Republic of Kazakhstan with effect of 31st of January 2017 «The third modernization of Kazakhstan: global competitive advantage» is described as follows: «the Big potential for the development of entrepreneurial sphere is due to enlargement of public-private partnership. To attract private capital it is necessary to use all possible types of and form of public-private partnership: beneficial ownership of public property, service contract and others. In addition to the above it is necessary to simplify and speed up all the coordination procedures as much as possible, especially with regard to small projects. Public-private partnership should be the main mechanism for the development of infrastructure, including social infrastructure» [1, 14].

As a part of the study, the methods of comparative analysis of conceptual and methodological aspects of the accounting and financial reporting organization were applied in public and private sector of the economy on the accounting of the concession agreements, main provisions of the IPSAS and IFRS on the accounting of concessionary assets and liabilities from government side which is acting as a concessor (in accordance to IPSAS), and concessionaire (in accordance with IFRS).

In the course of the study of the practical and methodological aspects of accounting operations within Public-private partnership from government side (concessor) and private partner (concessionaire) the methods of systematization and experience generalization in organizing of concession agreement accounting and analysis of regulatory basis for the development of the various forms of public and private partnership in the Republic of Kazakhstan were used.

Since the processes of introduction and development of new forms of public-private partnership are faced with the problems of the insufficiently developed methodological basis for organizing accounting in the subjects of the public sector of the economy and business entities, studies on the problems of accounting and assessment of concession assets and concession liabilities are currently very relevant and timely.

The relationship between public and private partners in the Republic of Kazakhstan is regulated by the Public-private partnership Act of 31st of October 2015 No. 379-V and the Concession Act of 7th of July 2006.

The main goal of public-private partnership is the infrastructure development to the public ends by merging of recourses and experience of the government and business, implementation of important social projects with least cost and risks provided for submittal of the high quality services by economic entities [14].

The recourses of public-private partnership entity's reimbursement of expenses and income generation are:

- 1) Realization of goods and services in the operational process of the public-private partnership object;
- 2) Subsidies from the government in circumstances established in accordance with legislation of the Republic of Kazakhstan;
- 3) Reimbursement of investment expenses upon the project of public-private partnership;
- 4) Reimbursement of operational expenses upon the project of public-private partnership;
- 5) Income generation for the realization of object management of public-private partnership, which is in public ownership and rental fees for the use of public-private partnership object;
- 6) Availability payment. the Public-private partnership Act of 31st of October 2015 No. 379-V.

Currently the usage of mechanisms of public-private partnership get widespread use in the Republic of Kazakhstan and it is conducted in all of the sectors of economy (tables 1–3).

Table 1 – The quantity of public private partnership objects (as of February 2018)*

Total public private partnership objects (2018)	Objects	Put into service	At the stage of project construction
Quantity	200	129	71
Balance (billion KZT)	765.5	91.3	672.2
*Provided according to data of the Ministry of National Economy of the Republic of Kazakhstan, from economy.gov.kz web-site.			

Upon the results of analysis of current situation on the development in respect of public-private partnership in the Republic of Kazakhstan (year 2018):

Total 696 projects, out of which: 263 – signed contracts (112.6 billion KZT), 433 – on different preparation stages (1.06 trillion KZT) including: 105 – on stage of tender (398.1 billion KZT), 328 – on the stage of developing documentation (662.6 billion KZT).

Table 2 – Current situation upon the regional projects (as of February 2018)*

Region	Signed contracts	On the stage of tender/signing contracts	Developing documentation	Total
Aktobe region	73	31	25	129
West Kazakhstan Region	71	2	19	92
Karaganda Region	21	0	9	30
Kostanay Region	20	11	23	54
South Kazakhstan Region	14	14	26	54
Almaty Region	12	5	24	41
Pavlodar Region	11	2	39	52
Kyzylorda Region	10	1	48	59
Akmola region	8	3	28	39
Mangystau Region	7	4	23	34
Almaty	5	0	10	15
Astana	4	0	6	10
North Kazakhstan Region	3	1	8	12
Zhambyl Region	2	21	3	26
Atyrau Region	2	2	31	35
East Kazakhstan Region	0	8	6	14
Total	263	105	328	696
*Provided according to data of the JSC «Kazakhstan Public-private Partnership Center» from kzppp.kz web-site.				

Table 3 – Examples of projects upon development and exploitation of public-private partnership objects in the Republic of Kazakhstan*

Directions of Public-private partnership	Projects
Development and exploitation of projects of waterworks facility, waterworks disposal and clearing of water resources	Projects: development of demineralization water factory in Kenderly, Mangystau Region
Development and exploitation of penitentiary system	Projects: penitentiary facility for 1500 places in Shymkent city
Construction and Exploitation of Airports in regions	Projects: Construction of the new airport in Shymkent city
Construction and Exploitation of health care facility	Projects: multi-special hospital for 300 places in Aktau city, multi-special hospital for 300 places in Ust-Kamenagorsk city, children's municipal hospital in Semei city
Construction and provision of kindergarten services (childcare center) and other projects in social sphere	Kindergarten and other projects on social sphere
Transportation infrastructure	BAKAD (Big Almaty auto road circle), Free railway line round about railway junction of the Almaty station, Auto-road round about Shymkent city. Construction of bridge crossing through the Bukhtarma water storage reservoir in Kurchum region of the East-Kazakhstan. Other infrastructure projects.
*Provided according to data of the JSC «Kazakhstan public-private partnership center» from kzppp.kz web-site.	

Table 4 – Samples of realized construction and exploitation projects of public-private partnership objects in the Republic of Kazakhstan*

Project	Description
Construction and exploitation of passenger terminal in international airport of Aktau city	Project: «Construction and exploitation of passenger terminal in international airport of Aktau city» Term of the contract: 2007-2037 Concedent: Local administration of Mangystau region Cost of project: 4 092 752,0 thousands of KZT Stage of realization: in exploitation
Energetics	PL (Power Line) 500 qt North Kazakhstan – Aktobe region Realization of project – construction of 487 km of power line with 220 and 500 kW voltage to cover shortage of Aktobe region Cost of project - 190 millions of USD Length of line - 487 km Term of the construct: 2005-2022
Transport	Construction and exploitation of new railway line «Shar Station – Ust-kamenagors» Realization of the project – creation of new transportation direction which shortens the distance in southward and westward direction, and expediting delivery for 12-14 hours. Cost of project: 97,92 millions of USD Term of the construct - 2005-2028.
*Provided according to data of the JSC «Kazakhstan public-private partnership center» from kzppp.kz web-site.	

2. The accounting of concession contracts. The most difficult are the issues of recognition and subsequent accounting of concession assets and concession liabilities, recognition and accounting of profit and losses under concession contracts, i.e., how the concession object should be accounted for, who should have concession assets and concession liabilities.

In according with paragraph 5 of the Law of the Republic of Kazakhstan «On Concessions»:

- state-owned immovable and movable property, exclusive rights associated with the performance of activities for concession objects, are granted for temporary possession and use to the concessionaire in the manner provided for in the concession agreement;
- improvements made at the concession objects, as well as objects of unfinished construction and property rights to the results of intellectual creative activity that arose when the conditions of the concession contract are being exercised, are transferred to state ownership, unless otherwise stipulated by the concession agreement;

- the concession objects that arose as a result of the execution of the conditions of the concession contract are transferred after their creation into state ownership, unless otherwise provided by the concession agreement;

- when the concessioner co-finances the concession project and (or) the concessionaire pays the compensation to the concessionaire, the concession object is transferred to state ownership;

- the products and other revenues received by the concessionaire as a result of the operation of the concession facilities are its property, unless otherwise provided by the concession agreement [2].

The concession objects constructed by the concessionaire as a result of the performance of the contract condition are transferred to the state ownership from the moment of creation of the concession object with the subsequent use of these facilities by the concessionaire. The objects of unfinished construction and intellectual property rights that arose when the conditions of the concession agreement were implemented, improvements made on existing state property objects transferred to concession are state property.

On already existing objects of state property, which are transferred to the temporary possession and use of the concessionaire, the costs of maintaining them in working order and effective use are borne by the concessionaire. Products and other revenues received by the concessionaire as a result of the use of concession objects are his property.

Under the concession agreements, the problem is the recognition of the asset on the balance sheet and the procedure for submitting the concession objects in the financial statements based on the conceptual provisions.

According to the requirements of international financial reporting standards for the purpose of recognizing a concession object on the balance sheet is based on an assessment of the transfer of all risks and rewards of ownership of the asset.

Virtually all significant benefits and risks associated with owning the asset, including the risk of accidental loss or accidental damage to the object of the concession agreement since the transfer of the object to it, have been transferred to the concessionaire.

To resolve the issue of recognizing an asset on the balance sheet of a concessionaire or concessor, it is necessary to determine: who controls the concession object, concessionaire or concessor?

When an asset is recognized by concessor, it should be taken into account the compliance of the signer with the presence of control over the concession asset.

In cases where the binding agreement gives the concessor the right to control the use of the concessionary asset, the asset meets the conditions for control.

Confirmation of control over the asset on the part of the concessor is the concessor's rights under concession agreements for determining the types of activities (works, services provided under the terms of the contract); On the establishment of prices (tariffs) for goods (work, services) and the procedure for determining prices; On the establishment of quality standards provided by the concessionaire under the concession agreement for goods (works, services), etc.

The grantor is not required to have full control over prices: it is sufficient that prices are regulated by the grantor, binding agreement or an independent body that regulates other entities operating in the same industry or in the same concession sector (e.g. hospitals, schools or universities), as the concessor (for example, by means of the mechanism for establishing the upper limit).

Also, the grantor controls ownership of any remaining stake in the concession objects at the end of the term of the agreement.

The control of the concessor over any significant residual share should both limit the actual ability of the operator (the concessionaire) to sell or pledge the asset, and grant the concessor the permanent right to use throughout the duration of the concession agreement for the provision of services.

Therefore, in determining whether a concession asset should be recognized on the balance sheet of the concessor during the construction or development period of the asset, it should be checked for compliance with the criteria for recognizing the asset in terms of the likelihood of future economic benefits or service potential and, consequently, the reliability of the cost estimate or fair value.

And if during the construction or development period the recognition criteria for both fixed assets and intangible assets are met, the grantor recognizes the concession asset during the construction period.

Subject to all provisions of the IFRS and IPSAS for determining the asset, the concession object should be recognized on the balance sheet of the grantor, not the concessionaire. According to IFRS (IFRIC 12 «Service Concession Arrangements»), «the infrastructure ... should not be recognized as part of the fixed assets of the concessionaire (operator), because the contractual service agreement does not transfer to the operator the right to control the use of the public service infrastructure.

The operator has access to infrastructure management for the provision of public services on behalf of the concession provider in accordance with the conditions specified in the contract» [3].

Compensation of the costs of the concessionaire for the erection or improvement of the concession object is carried out in the form of compensation for investment costs or in the form of cost recovery through the sale of goods (works, services) produced and income in the process of operation of the concession object.

From the point of view of the concessionaire, the accounting for assets and liabilities under concession agreements is determined by the international standard for public sector financial reporting - IPSAS 32 «Service Concession Arrangements: Grantor» [4].

For the purposes of the financial reporting of the concessionaire, the accounting for assets and liabilities under concession agreements is determined by International Financial Reporting Standard - IFRIC 12 «Service Concession Arrangements» [5].

3. Recognition of income from the provision of services by the concessionaire. In accordance with the concession agreement, the concessionaire (operator) builds or purchases infrastructure facilities for the provision of public services, or the concessionaire is granted access to the existing infrastructure for the purpose of an agreement for the provision of services.

The concessionaire (operator) acts as a provider of several types of services: the construction of new or improvement of existing facilities, as well as their management. The concessionaire (operator) must separately recognize the revenues from the provision of construction or infrastructure improvements in accordance with IAS 11 «Construction Contracts» [6] and beginning from 2018 in accordance with IFRS 15 «Revenue from Contracts with Customers» [8] and the revenue from the provision of services as a result of the management of infrastructure facilities in accordance with IAS 18 «Revenue» [7] and beginning from 2018 in accordance with IFRS 15 «Revenue from Contracts with Customers» [8].

A concessionaire (operator) must recognize a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from the concession provider or at its direction for the performance of construction services in accordance with IAS 11 and beginning from 2018 in accordance with IFRS 15 «Revenue from Contracts with Customers» [8].

Alternatively the concessionaire (operator) must recognize the intangible asset to the extent that it obtains the right (license) to charge users of public services.

4. Two models of concession accounting. In accordance with international financial reporting standards, two models of concession accounting are defined: a financial obligation and the grant of a right.

Under the first model, the grantor recognizes a financial liability when it is required to make payments to the operator for providing services for the construction or improvement of the concession asset. The concessionaire (operator) recognizes the income for the services it provides for the construction, development, acquisition or improvement of the concession facility. According to the second model, the grantor recognizes the obligation when it grants the operator the right to receive revenues from third-party users of the concession asset. In this case, according to IFRIC 12, paragraph 26, the operator recognizes an intangible asset [5].

The procedure for the recognition and accounting of income and expenses of the concessionaire for the provision of services for the construction or improvement of concession facilities based on the financial liability model using the accounts of the Model Plan is presented in table 5.

The procedure for the recognition and accounting of incomes and expenses of a concessionaire for the provision of services for the construction or improvement of infrastructure facilities by the model of granting rights to the concessionaire (operator) using the accounts of the Model Plan is presented in table 6.

Recognition of income and expenses of the concessionaire for the provision of services for the management of the concessionary asset is reflected as follows (in table 7).

Table 5 – Correspondence of accounts of accounting of concessionary assets and liabilities with the concessionaire by the model of a financial liability

#	Contents of operation	Correspondence of accounts	
		Debit	Credit
The concessionaire (operator): accounting of assets and liabilities under concession agreements on the model of a financial liability			
1	For the amount of completed repair or construction work	«Work in process», sub-account «Under concession agreements»	«Accounts payables», sub-account «Under concession agreements» and etc.
2	In the presence of previously issued advances, a record is made for advance payment	«Accounts payables», sub-account «Under concession agreements»	«Advances paid» sub-account «Under the concession agreements»
3	Recognition of expenses for completed objects of concession agreements or works performed for their modernization and reconstruction that are the subject of state ownership	«Cost of goods sold (completed works and services)», sub-account «Under the concession agreements»	«Work in process», sub-account «Under concession agreements»
4	Recognition of expenses on the stages of completion of works performed for the construction of objects of concession agreements or works on their modernization and reconstruction that are the subject of state ownership	«Cost of goods sold(completed works and services)», sub-account «Under the concession agreements»	«Work in process», sub-account «Under concession agreements»
5	At the same time, recognition of revenues from the provision of services for the construction of concession agreement facilities	«Accounts receivable», sub-account «Under concession agreements»	«Income from the sale of goods (completed works and services)», sub-account «Under the concession agreements»
*Prepared by the author.			

Table 6 – Correspondence of accounts of accounting of concessionary assets and liabilities by the model of right provision to concessionary (operator)

#	Contents of operation	Correspondence of accounts	
		Debit	Credit
Concessionary (operator): accounting of concessionary assets and liabilities by the model of right provision to concessionary (operator)			
1	For the amount of completed repair or construction work	«Work in process», sub-account «Under concession agreements»	«Accounts payables», sub-account «Under concession agreements» and etc.
2	In the presence of previously issued advances, a record is made for advance payment	«Accounts payables», sub-account «Under concession agreements»	«Advances paid», sub-account «Under the concession agreements»
3	Recognition of expenses for completed objects of concession agreements or works performed for their modernization and reconstruction that are the subject of state ownership	«Cost of goods sold (completed works and services)», sub-account «Under the concession agreements»	«Work in process», sub-account «Under concession agreements»
4	Recognition of expenses on the stages of completion of works performed for the construction of objects of concession agreements or works on their modernization and reconstruction that are the subject of state ownership	«Cost of goods sold (completed works and services)», sub-account «Under the concession agreements»	«Work in process», sub-account «Under concession agreements»
5	At the same time, recognition of intangible asset on the provided right to concessionary (operator)	«Other intangible assets», sub-account «Under concessionary agreement»	«Income from the sale of goods (completed works and services)», sub-account «Under the concession agreements»
*Prepared by the author.			

Table 7 – Correspondence of accounts of accounting for the recognition of income from the provision of services for the management of the object of concession agreements

#	Contents of operation	Correspondence of accounts	
		Debit	Credit
1	Recognition of income from the provision of services for managing the object of concession agreements	«Accounts receivable», sub-account «Under concession agreements»	«Income from the sale of goods (completed works and services)», sub-account «Under the concession agreements»
*Prepared by the author.			

Table 8 – Correspondence of accounts of assets and liabilities accounting under concession agreements with the concessor

#	Contents of operation	Correspondence of accounts	
		Debit	Credit
Grantor: accounting of assets and liabilities under concession agreements by model of financial liabilities			
1	The receipt of long-term assets from the concessionaire (operator)	«Fixed assets», sub-account «Under concession assets» «Construction in progress», sub-account «Underconcession assets»	«Accounts payables», sub-account «Under concession agreements»
2	Acceptance of services for overhaul, modernization and reconstruction of fixed assets	«Construction in progress»,sub-account «Under concession agreements»	«Accounts payables»,sub-account «Under concession agreements»
3	Simultaneously, the second record is made for an increase in the cost of fixed assets for the cost of overhaul, modernization and reconstruction	«Fixed assets», sub-account «Underconcession assets»	«Construction in progress», sub-account «Underconcession assets»
4	Repayment of debts to the concessionaire (operator)	«Accounts payables»,sub-account «Under concession agreements»	«Accounts of planned appointments of payments under an individual financing plan for the obligations of public entities funded from the Republican budget», «Accounts of planned appointments of payments under an individual financing plan for the obligations of public entities funded from the Local budget»
Depreciation on long-term assets received from the concessionaire (operator) under concession agreements			
5	Depreciation of long-term assets	«Expenses for depreciation of long-term assets», sub-account «For concession assets»	«Accumulated amortization of fixed assets», sub-account «For concession assets»
Grantor: accounting of assets and liabilities under concession agreements on the basis of a model for granting rights to a concessionaire (operator)			
6	The receipt of long-term assets from the concessionaire (operator)	«Fixed assets», sub-account «Under concession assets», «Construction in progress», sub-account «Under concession agreements»	«Other revenues»
7	Acceptance of services for overhaul, modernization and reconstruction of fixed assets	«Construction in progress», sub-account «Under concession agreements»	«Other revenues», sub-account «Under concession agreements»
8	Simultaneously, the second record is made for an increase in the cost of fixed assets for the cost of overhaul, modernization and reconstruction	«Fixed assets», sub-account «Under concession agreements»	«Construction in progress», sub-account «Under concession agreements»
Depreciation of long-term assets purchased under concession agreements based on a model for granting rights to a concessionaire (operator)			
9	Depreciation of long-term assets	«Expenses for depreciation of long-term assets», sub-account «For concession assets»	«Accumulated amortization of fixed assets», sub-account «On concession assets»
*Prepared by the author.			

The accounting procedure for concessionary objects and liabilities with the concessor is presented using the Chart of Accounts of State Institutions in the table below. The Grantor recognizes a financial liability when it is required to make payments to the operator for services provided for the construction or improvement of a concessionary asset (i.e. constructed, developed, acquired or improved).

The concessionaire (operator) recognizes the income for the services provided for it in construction, development, acquisition, improvement and operation (table 8).

5. Conclusion. The present article considers the actual questions of improving accounting in the public sector of the Republic of Kazakhstan in terms of public-private partnerships in the form of concession agreements. It considers the accounting treatment of concession facilities, concession liabilities, income and expenses in accordance with IPSAS and IFRS, and provides guidance on accounting issues of concession contracts.

The main goal of the article was to interlink the current issues of accounting for assets and liabilities under concession agreements in the financial statements of the concessionaire and grantor, taking into account the provisions of IFRS and the public sector financial reporting standard (IPSAS 32).

The presented recommendations on the recognition and accounting of assets and liabilities under concession agreements with correspondence have been developed taking into account the requirements for reflecting concession objects in accordance with the provisions of IFRS and IPSAS.

In the course of the research, in accordance with the requirements of the IPSAS and private sector IFRS and requirements of the regulatory basis for the development of Public-private entrepreneurship in the Republic of Kazakhstan the topical issues of accounting organization were analyzed. Taking into account that there are no developed national rules for the organization of accounting of concession agreements at the present stage of development of new forms of cooperation between the state and private entrepreneurship in the Republic of Kazakhstan, the recommendations on the accounting of concession assets and concession liabilities were developed, both from public sector entities and from the private sector entities (concessionaires).

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ҚАЗАҚСТАН РЕСПУБЛИКАСЫНДАҒЫ КОНЦЕССИЯ АКТИВТЕР МЕН МІНДЕТТЕРІНІҢ БУХГАЛТЕРЛІК ЕСЕБІНІҢ АҒЫМДАҒЫ ПРОБЛЕМАЛАР

Аннотация. Мақалада Қазақстан Республика экономикасының мемлекеттік секторында мемлекет-жеке серіктестікті концессиялық келісімдер нысанын дамыту шартында бухгалтерлік есепті жетілдіру сұрақтары қарастырылған. Концессия объектерінің, концессиялық міндеттердің, ҚЕХС (IFRS) және «ҚСХҚЕС» (IPSAS) сәйкес кіріс пен шығыстың есеп тәртібі және концессиялық келісімдерді есепке алу мәселелері бойынша ұсыныстар берілген.

Түйін сөздер: концессиялық актив, концессиялық міндеттеме, қаржылық міндеттеме моделі, құқықтықсыну моделі, концедент, концессионер (оператор), концессиялық келісімдер бойынша бухгалтерлік есеп, активтер мен міндеттемелерді, кірістер мен шығыстарды мойындау, 32 «ҚСХҚЕС» (IPSAS), ҚЕХС (IFRS).

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АКТУАЛЬНЫЕ ПРОБЛЕМЫ БУХГАЛТЕРСКОГО УЧЕТА КОНЦЕССИОННЫХ АКТИВОВ И ОБЯЗАТЕЛЬСТВ В РЕСПУБЛИКЕ КАЗАХСТАН

Аннотация. В статье рассмотрены вопросы совершенствования бухгалтерского учета в государственном секторе экономики Республики Казахстан в условиях развития государственно-частного партнерства в форме концессионных соглашений. Рассмотрен порядок учета объектов концессии, концессионных обязательств, доходов и расходов в соответствии с МСФООС (IPSAS) и МСФО (IFRS), представлены рекомендации по проблемам учета договоров концессии.

Ключевые слова: концессионный актив, концессионное обязательство, модель финансового обязательства, модель предоставления права, концедент, концессионер (оператор), бухгалтерский учет по договорам концессии, признание активов и обязательств, доходов и расходов, МСФООС (IPSAS) 32, МСФО (IFRS).

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