

ACCOUNTING ASPECTS OF RECOGNIZING PROCEEDS AND EXPENDITURES AND CONDITIONS OF PUBLIC-PRIVATE PARTNERSHIP CONTRACTS

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Abstract

Proceeds and expenses are fundamental elements in the economic analysis of an entity, providing essential information about its use of resources and performance. This article examines the theoretical and methodological aspects of defining, classifying, and evaluating proceeds and expenses, with a particular focus on their application in the context of public-private partnership (PPP) contracts. It analyzes how these transactions are reflected in accounting records and their impact on financial statements. Using research methods based on literature review and case studies from the Republic of Moldova, the article proposes relevant conclusions and recommendations for improving the transparency and accuracy of proceeds and expenditure recording in PPPs, thus ensuring more accurate and internationally comparable financial reporting.

Key words: *proceeds, expenditures, recognition, valuation, public-private partnership, public partner, private partner, entity.*

JEL classification: F-47; H-42; L-32; M-41

I. INTRODUCTION

In the Republic of Moldova, public-private partnership (PPP) contracts are an important tool for implementing infrastructure projects and providing public services. These partnerships enable the mobilization of financial resources from the private sector for the implementation of projects of public interest. In this context, the proceeds and expenditures generated by these contracts have a significant impact on the accounting and financial reporting of the entities involved.

The issue of accounting for proceeds and expenditures at the national level has been intensely debated in doctoral research, articles, and public debates, but less so in terms of the methodology of PPP-specific accounting. Among the local researchers concerned with this field are economists A. Nedeiță, L. Grigori, and others. These works have contributed to defining the concept of proceeds and expenditures and have proposed new criteria for classifying them according to the purposes for which accounting information is used.

The purpose of this article is to analyze and examine the theoretical and practical aspects related to proceeds and expenses generated under PPP contracts, including their recognition, measurement, and how PPP-specific transactions are reflected in the accounting records.

The main objectives outlined in the research are:

- identifying the elements that correspond to the definitions of proceeds and expenditures and can be included in their composition;
- recognizing and evaluating proceeds and expenditures under PPP contracts;
- reflecting proceeds and expenditures related to PPP transactions in accounting accounts.

II. RESEARCH METHODOLOGY

This study is based on an analysis of the regulatory framework in the Republic of Moldova, including the Law on Accounting and Financial Reporting of the Republic of Moldova No. 287/2017 (Law No. 287/2017), the Law on Public-Private Partnership No. 179/2008 (Law No. 179/2008), Methodological Guidelines on the Specifics of Accounting in the Process of Implementing Public-Private Partnerships (Methodological Guidelines), National Accounting Standards (NAS), International Financial Reporting Standards (IFRS) and the General Chart of Accounts amended on 27 December 2019 (General Chart of Accounts).

The research methods used include documentation, comparative analysis, synthesis, analogy, as well as case studies from the Republic of Moldova on the application of PPP accounting.

III. RESULTS AND DISCUSSIONS

The Republic of Moldova has regulated PPPs through Law No. 179/2008, which establishes the legal framework for the implementation and management of these projects. This legislative framework defines the principles of *transparency, risk sharing, partner responsibilities, and financing methods, including how to recognize revenues and expenses* (Law No. 179/2008).

According to the provisions of NAS "Proceeds", revenue is defined as increases in economic benefits obtained during a reporting period, manifested by an increase in assets or an increase in their value, or by a reduction in liabilities, which leads to an increase in equity, except for increases resulting from contributions by owners (NAS Proceeds).

A similar approach is provided in Appendix A to IFRS 15 "Proceeds from Contracts with Customers", where revenue is recognized when it is probable that the economic benefits will be realized and when they can be measured reliably (IFRS 15, Appendix A).

According to Article 4 of NAS "Presentation of Financial Statements", proceeds are described as gross flows of economic benefits or service potential obtained during the reporting period, which lead to an increase in net assets, except for those arising from owner contributions (NAS Presentation of Financial Statements).

According to NAS "Expenditures", these represent decreases in economic benefits recognized during the management period, manifested by outflows of resources, decreases in the value of assets, or increases in liabilities, which have the effect of reducing equity (financial result), except for decreases generated by its distribution to the owner (NAS Expenditures).

Economists Nedeița A. defines proceeds as "increases in economic benefits recorded during the accounting period in the form of inflows/increases in assets or decreases/extinguishments of liabilities, which have influenced the net result (profit/loss) of the current financial year, and expenses as decreases in economic benefits recorded during the accounting period in the form of outflows/decreases in assets or occurrences, increases in liabilities, which influenced the net result (profit/loss) of the current financial year (Nedeița, 2020a).

The methodological guidelines do not explicitly define PPP-related proceeds and expenses, which creates practical difficulties in accounting for them. Thus, further clarification is needed in the national regulatory framework to ensure consistent and transparent financial reporting of PPP projects.

Also, in the Republic of Moldova, accounting treatments for PPP transactions are regulated by SNC, which are partially aligned with international standards (IFRS). These standards are applied in the accounting of the private companies involved. For public entities, International Public Sector Accounting Standards (IPSAS) have been developed. These standards are not currently applied in the accounting of public entities at the national level, so the public partner applies the accounting system for the budgetary sector.

In this legislative context, it is important to analyze how proceeds and expenses under PPP contracts are recognized, measured, and reflected in the accounting records in accordance with national regulations, so that there is transparency and accuracy in financial reporting.

Recognition consists of establishing the management period in which revenues and expenses can be recorded in the accounts and financial statements, and measurement consists of determining their value (Accounting Law, 2017).

Under a PPP contract, revenues may come from various sources, including:

- **Direct payments from the public** sector for infrastructure projects or public services;
- **Proceeds from user fees** (e.g., infrastructure usage fees or payment for public services);
- **Other sources of revenue** (subsidies or other forms of public funding).

Proceeds is usually recognized separately for each transaction. In certain situations, revenues may be recognized on the distinct components of a transaction (e.g., if the sale price of goods includes an identifiable amount for subsequent services, this amount is initially recorded as deferred revenue and recognized as current revenue as the services related to the goods sold are provided), (NAS Proceeds).

In accordance with International Accounting Standards (IAS) and national regulations, revenue from PPPs must be recognized when it is probable that the economic benefits associated with them will flow to the entity and the revenue can be measured reliably. For example, in the case of a motorway construction contract, revenue will be recognized as work progresses, according to the terms set out in the contract.

The principle of progressive revenue recognition also applies to long-term PPP contracts. Revenue is recognized as the work is performed or as the services are provided, in accordance with the terms of the contract.

Expenses are recognized when there are decreases in economic benefits through the reduction of assets or increase in liabilities. The matching principle requires that related revenues and expenses be recognized in the same accounting period (IPSAS, 2020).

In the implementation of PPP projects, expenses may include:

- **Capital expenditures** (construction costs, equipment purchases);
- **Maintenance and operating expenses** (periodic costs for maintaining infrastructure or providing services);
- **Financial expenses** (interest related to project financing).

According to accounting regulations in the Republic of Moldova, expenses are recognized as they are incurred, in accordance with the principle of prudence. Depreciation expenses for assets acquired through PPPs must be reflected accordingly in the accounting records, with each asset being depreciated over its useful life.

Given that not all PPP contracts have the same characteristics, the recognition of revenues and expenses should be analyzed according to the type of contract. Table 1 summarizes the specific criteria for the different forms of PPP contracts:

Table 1.

Proceeds and expenditures recognition criteria depending on the form of performance of the public-private partnership contract

Form of contract for the realization of the partnership public-private	Recognition of proceeds	Recognition of expenditures
Service delivery/Contractor contract	Proceeds is recognized progressively by the stage of completion method over the duration of the contract.	Expenditures are recognized at the stage of completion, in proportion to the progress of works.
Fiduciary administration contract	Simultaneous recognition of current receivables and payables.	Recognize current expenses and liabilities, with inventory reduction.
Civil society contract	The income is distributed among the associates in proportion to their participation share.	Expenses are recognized in proportion to the interest of each associate.
Contract leasing	Recognition according to SNC "Leasing Contracts", increase of receivables and current income.	Expenditures are reflected as an increase in current liabilities.
Concession contract	Proceeds are recognized in accordance with SNC "Revenues", either globally or by separate components.	Expenses are recognized according to the SNC "Expenses", in relation to the liabilities or assets involved.

Source: Developed by the author on the basis of information from the Methodological Guidelines, 2018.

The recognition of proceeds and expenditure also involves their measurement. Measurement of proceeds and expenditures is essential for the transparency of financial reporting, using several methods:

- **Historical cost method** - used for the valuation of capital assets (e.g. construction and purchase of equipment). This involves recording expenses at the asset's original value, without adjustments for inflation or other market changes;
- **Fair value method** - used for the valuation of assets or income that can be traded in the market. For example, if PPP infrastructure is sold or concessioned, this valuation method will be applied;
- **Discounted cash flow method** - applied for the valuation of revenues and expenses over long-term, taking into account discounted future cash flows. This is an important tool in the valuation of large-scale PPP projects involving significant investment and long-term revenues.

In accordance with NAS "Proceeds", revenues are measured at the fair value of the consideration (means of payment) received or receivable less the amount of any price discounts, bonuses and other trade discounts granted by the seller (NAS Proceeds).

With regard to the evaluation of expenses, the reading of the NAS "Proceeds" allows us to record the

following aspects: the book value of outgoing assets; the actual cost of services rendered/work performed; the amount of remuneration actually calculated for the staff, the amount of compulsory state social insurance contributions and related compulsory health insurance premiums; the amount of depreciation calculated and the depreciation of fixed assets; the amount of provisions set aside; the cost of services received, etc. (NAS Expenditures).

After recognition and measurement, income and expenditure must be recorded in accounting accounts according to the rules laid down in the General Chart of Accounts.

Proceeds accounts are liability accounts and expenditure accounts are asset accounts. During the reporting period in the credit of the revenue accounts and debit of the expense accounts are recorded with the cumulative total from the beginning of the period, respectively, revenues and expenses, and in the debit, respectively, credit - the settlement at the end of the reporting period of the accumulated revenues and expenses to the total financial result (Chart of Accounts, 2019).

The general chart of accounts classifies income and expenditure by groups of accounts, as shown in Table 2.

Table 2.

Nomenclature of groups and summary proceeds and expenditures accounts

Symbol and name of the account group	Symbol and name of the synthetic account
Class 6 "PROCEEDS"	
61 "Proceeds from operating activity"	611 „Proceeds from sales"
	612 „Other proceeds from operating activities"
	613 „Interest-related income on loans granted"
	616 „Proceeds from earmarked funds"
	617 „Other proceeds (excluding business income)"
	618 „Proceeds from economic activities"
62 "Proceeds from other activities"	621 „Proceeds from operations with fixed assets"
	622 „Financial proceeds"
	623 „Exceptional proceeds"
Class 7 „EXPENDITURES"	
71 „Operational activity expenditures"	711 „Cost of sales"
	712 „Distribution expenditures"
	713 „Administrative expenditures"
	714 „Other operating expenditures"
	715 „Interest-related expenditures"
	716 „Expenditures related to special-purpose funds"
	717 „Other expenditures (excluding business expenses)"
	718 „Economic activity expenditures"
72 „Expenditures on other activities"	721 „Expenditures on fixed assets"
	722 „Financial expenditures"
	723 „Exceptional expenditures"
73 „Income tax-related expenditures"	731 „Income tax-related expenditures"

Source: Developed by the author on the basis of the General Chart of Accounts, 2019.

Depending on the nature of PPPs, there are several ways of accounting:

➤ **Recording of fee income:** income derived from fees or other sources of income must be recorded according to the rules laid down in national legislation;

➤ **Depreciation of assets:** fixed assets acquired or constructed under a PPP are subject to depreciation of assets: fixed assets acquired or constructed under a PPP are subject to depreciation in accordance with accounting regulations and depreciation charges must be reflected in the financial accounts of the entity.

It should be noted that the General Chart of Accounts does not specifically regulate the manner of

recording income and expenditure related to PPP contracts in the accounts. In this context, we consider that each organization involved in such a project should establish on its own the correspondence of the accounting accounts related to the economic facts generalizing income and expenditure.

According to the Methodological Guidance, the income and expenses related to the operations of joint-asset civil partnership contracts are recorded in sub-accounts separate from other activities.

We recommend that the separate recording of income and expenses by type of activity should be mandatory for all types of PPP specific contracts.

In accordance with the General Chart of Accounts, income from the provision of services under PPP contracts may be recorded as sales revenue (e.g. revenue from the provision of services) or as financial income (e.g. revenue from participating interests), depending on whether or not the PPP participation is the entity's core business.

- Income from services is recorded in the account "Income from sales" and financial income in the "Financial income" account, the recording of income from the provision of services related to the PPP contract is based on the tax invoice:

Debit account "Other current receivables", sub-account "Receivables related to the public-private partnership private partnership"

Credit account "Proceeds from sales", sub-account "Proceeds from services rendered", or

Credit account "Financial proceeds", sub-account "Proceeds from participating interests";

- The cost of the services rendered is reflected in the "Cost of sales" account, on the basis of the accounting note drawn up reflects the settlement of the cost of the service rendered:

Debit account "Cost of sales", sub-account "Cost of services rendered"

Credit account "Core activities", or

Credit account "Indirect production costs";

The methodological guidelines allow the necessary management accounts to be introduced in the private partner's accounting policies. Thus, the management account "*Costs related to public-private partnership contracts*" can be proposed for use.

- Recognition of favorable exchange rate differences:

Debit "Current accounts in foreign currency" account

Credit the "Financial income" account, sub-account "Exchange rate gains";

- Recognize unfavorable exchange differences:

Debit the "Financial expenses" account, sub-account "Foreign exchange expenses"

Credit the "Current accounts in foreign currency" account.

The methodological guidance recommends separate income and expenditure records for each type of PPP contract. However, they do not include detailed accounting schemes, which creates difficulties in practical application. We recommend that each entity should match its accounting accounts according to the specific project.

Subsequently the information on income and expenditure related to PPP contracts, recorded in the accounting accounts, is to be presented in the financial statements. The minimum set of information on income and expenditure to be disclosed in the financial statements is governed by the NAS "Proceeds" and NAS "Expenditures".

IV. CONCLUSIONS

Generalizing the above, it can be seen that the recognition of proceeds and expenses in public-private partnership contracts is regulated both at national level, by the NAS, Law no.179/2008, the Methodological Guidelines, and at international level, by IFRS, IAS, IPSAS and the Conceptual Framework for Financial Reporting.

During the research, the conceptual delimitations of proceeds and expenses, their recognition and measurement, as well as the main accounting formulas related to PPP contracts were analyzed. However, the existing methodological guidance does not provide detailed schemes for the use of proceeds and expenditure accounts and their presentation in the financial statements, which requires entities to take an individual approach to matching accounts.

The methodological guidelines on the specifics of accounting in the process of realization of public-private partnership regulate the specifics of accounting in the process of their realization, but lack practical

demonstrations in order to use the accounting accounts of proceeds and expenditure and how to present them in the financial statements.

In this context, in order to ensure transparency and comparability of financial reporting in PPP, it is recommended:

- Updating and adapting the Methodological Guidance in line with the approved 2020 changes to the NCS;
- Improving accounting and tax regulations to clarify the specific treatments of proceeds and PPP expenditure;
- Creation of a standardized nomenclature for recording PPP transactions, thus facilitating the analysis and proper management of public and private resources.

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