

**Query No. 20**

**Subject:** *Accounting treatment of dredging and shoal expenditure at the riverbank arising out of Court order for ensuring water supply to the refinery.*<sup>1</sup>

**A. Facts of the Case**

1. A Company (hereinafter referred to as 'the Company') had sought permission from Department of Water Resource (DoWR), Government of Orissa for drawl of water for one of its refinery project from upstream Mahanadi barrage, and started the construction work and laying of pipeline for transport of water in February 2010. DoWR while giving permission has desired that the Company would not claim as a matter of right to get the desired quantity of water during non-monsoon and lean period to meet their full industrial use and the Company has to make adequate storage facility in their own land for supply of water to their plant during such period.

2. The storage facility created by the Company is only for few days and shall not be able to cater to the eventuality of not getting the water from Mahanadi river during lean period which may go up to 2 months. The refinery project was commissioned in February 2016 and is fully dependent on Mahanadi river for its water requirements for existing operations as well as ongoing/future expansions.

3. Later on, in the financial year (F.Y.) 2010-11, a writ petition was filed in High Court of Orissa, alleging that the said construction by the Company at Mahanadi river is illegal and unauthorized and further prayed to the Court to pass an order prohibiting the construction on the river, citing environmental related issues as well as non-availability of water for drinking and agriculture in nearby areas. Brief chronology of events as submitted by the querist is as follows:

- i) The Company had submitted application before Department of Water Resource, Government of Orissa (DOWR) for drawl of water for its crude oil refinery project from upstream Mahanadi barrage, near Cuttack.
- ii) The Government of Orissa approved the request for drawl of water and installation of necessary facilities for pumping of water from Mahanadi for the project.
- iii) Accordingly, in February 2010 the Company started the construction work and laying of pipeline for transport of water from Mahanadi to refinery Project.
- iv) In F.Y. 2010-11, a nationalist lawyer's forum filed a writ petition, in the shape of Public Interest Litigation, in High Court of Orissa, alleging that the said construction by the Company at Mahanadi river is illegal and unauthorized and prayed to the court to pass an order prohibiting the construction on Mahanadi River citing environmental related issues as well as non-availability of water for drinking and agriculture in nearby areas.
- v) Several technical questions were raised by the petitioner including the question of availability of water in the reservoir, which has not been dredged since its inception and the old Anicut, which has remained sub-merged and has not been removed for which water retaining capacity of the reservoir has gone down and that the people of Cuttack City will suffer as they will not get drinking water during the lean season.
- vi) Honorable High Court constituted a technical expert committee to examine the issue and give its opinion.
- vii) The Committee concluded its opinion that ground drinking water recharge will not be affected as the pond level and area remains un-altered by the construction of

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<sup>1</sup> Opinion finalised by the Committee on 29.10.2020 and 30.10.2020.

Intake structure. It also stated in its report that construction work of the Company will not in any manner affect any embankment on either side as well as course of Mahanadi river.

- viii) The Company showed its willingness, to the Honorable High Court, for undertaking the peripheral developments including development and maintenance of the embankment, dredging of the river bed in order to enhance the water retaining capacity of the barrage and supply of drinking water and also to improve the health care in the City. The willingness shown by the Company for undertaking the aforesaid peripheral developments was appreciated by Honorable High Court.
- ix) Considering the report of technical committee and willingness of the Company to undertake the developments, High Court passed the judgment on 27.02.2012, in which it disposed of the petition and permitted the Company to carry on the construction.
- x) In addition, the Court directed the Company to bear the cost of some public interest activities (7 activities) at the city i.e. installation of water treatment plant, donation to institute engaged in development works, providing high-tech ambulances to Government hospitals, contribution for improvement of traffic signals light, removal of shoals and dredging of Mahanadi river and removal of old anicut.
- xi) Out of 7 activities listed out by the High Court, the Company has completed 5 activities with a total cost of Rs. 43.50 crores.
- xii) Status of Project for removal of shoals from the upstream of Mahanadi Barrage as directed by High Court, which is one of the two projects that are still in progress is as under:

| SR No. | Project   | Estimated Project Cost | Advance paid till 31.03.2020 | Utilization Certificate received till 31.03.2020 | Amount Lying in Capital Advance as on 31.03.2020 | Capital Commitment |
|--------|---|------------------------|------------------------------|--|--|--------------------|
| A      | B   | C                      | D                            | E  | F = D-E  | G = C-D            |
| 1      | Removal of shoals from the upstream of Mahanadi Barrage | 3,19,14,00,000         | 1,96,96,00,000               | 1,29,62,49,634                                   | 67,33,50,366                                     | 1,22,18,00,000     |
|        | <b>Rs. in crores</b>                                    | <b>319.14</b>          | <b>196.96</b>                | <b>129.62</b>                                    | <b>67.34</b>                                     | <b>122.18</b>      |

4. The querist has informed that the Honorable High Court constituted a technical expert committee to examine the issue and referring the report of the said committee, high court disposed of the petition and permitted the Company to carry on the construction. Further, based on the willingness shown by the Company the high court directed the Company to bear the cost of creating facilities for adequate availability of water as well as some public interest activities at the city e.g. donation to institute engaged in development works, provide high-tech ambulances to Government hospitals, contribution for improvement of traffic signals light. (A copy of the Court order dated 27.02.2012 has been supplied separately by the querist for the perusal of the Committee)

5. The querist has stated that in all, there were 7 activities which were to be carried out by the Company as per the High Court direction, the Company has completed 5 of them and 2 projects (Water Treatment Plant for drinking water and dredging of Mahanadi river) are still in progress.

6. Financial facts of the issue:

- (i) The projects which were already completed have been charged to the Statement of Profit and Loss (Rs 43.97 crore).
- (ii) Out of 2 remaining projects (which are still in progress), details of ‘Removal of shoals from the upstream of Mahanadi Barrage’ are as below:

*Work Description: Removal of shoals from the upstream of Mahanadi Barrage*

As mentioned in the order of High Court, Dredging can be done by the Odisha Construction Company, a state Govt. Agency, with the help and expertise of the DoWR at the cost of the Company.

|  |   |
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| Estimated cost   | Rs. 319.14 crores<br><i>(Estimated cost of the activity was Rs.230.72 crore in 2015-16, which was revised again to Rs.298.44 crore in 2015-16 and again revised Rs.319.14 crore in 2019-20)</i> |
| Advance given till date 31.03.2020   | Rs. 196.96 crores   |
| Advance outstanding as on 31.03.2020   | Rs. 73.96 crores  |
| Utilisation certificate for Rs. 129.62 crores has been received till 31.03.2020 and the same has been capitalised as CWIP in F.Y. 2019-20. |   |

Out of total estimated cost of Rs. 319.14 crore, the Company has paid Rs. 196.96 crore, out of which Rs. 129.62 crore has been capitalised as Capital Work in Progress (CWIP) based on utilisation certificate received during the current year up to 31.03.2020 and the remaining amount of Rs. 67.34 crore is shown as capital advances as on 31.03.2020. The amount remaining unpaid of Rs. 122.18 crore has been disclosed as capital commitment in F.Y. 2019-20 accounts.

7. Analysis of the expenses arising out of Court’s Order from accounting perspective:

- (i) *Accounting for expenses on projects which are already completed and the expenses are incurred by the Company :*

| Sl. No. | Project Name          | Expense (Rs. Crore) | Year of Exp. Charged off | Charged to |
|---------|-----------------------|---------------------|--------------------------|------------|
| 1       | 5 No. Ambulance       | 1.53                | 2016-17                  | P&L        |
| 2       | Ambulance-R&M         | 2.76                | 2016-17                  | P&L        |
| 3       | Health Care           | 9.68                | 2014-15                  | P&L        |
| 4       | Traffic Management    | 3.00                | 2015-16                  | P&L        |
| 5       | Removal of old Anicut | 25.52               | 2015-16                  | P&L        |
|         |                       | 1.48                | 2016-17                  | P&L        |

According to the querist, out of the above 5 projects, the accounting treatment of charging the expenses to Profit and Loss in the year of incurrence is in line with the accounting standards for the first 4 items since these expenses were in the nature of public interest activities and were not directly or indirectly related to the business of the Company or the use/ benefits derived from the assets of the refinery. *However, as regards to the expenditure incurred on ‘Removal of Old Anicut’ (item no. 5 above), which had remained sub-merged and had not been removed for which water retaining capacity of the reservoir has gone down, this expenditure is in the nature of enabling*

*expenditure since it is imposed as an obligation of the Company by the Court in lieu of drawing the water from Mahanadi river and was necessary for maintaining the water level in the river (refer paragraphs 4 and 8 of court's order). But the majority of the amount was incurred in pre-Ind AS scenario (F.Y. 2015-16) wherein the expenses on enabling assets need to be charged off to Profit and Loss as expenses and accordingly the remaining amount of Rs 1.48 crore incurred in F.Y. 2016-17 was also charged to the statement of profit and loss. (Emphasis supplied by the querist.)*

(ii) *Accounting for expenses on removal of shoals from the upstream of the river barrage (project still under progress):*

- i. The primary activity to be carried out is removal of shoals and dredging which is necessary in order to enhance the water retaining capacity of the barrage so that availability of water can be ensured to refinery as well as to the general public.
- ii. Point No. 5 of High court Order dated 27.02.2012 states “Government of Odisha, Department of Water resources while issuing permission for drawl of water from present source has stipulated condition that “the industry will have to show clearly as to what storage facility the company will create for the lean period and to what extent and how water is going to be recycled.” As stated by representatives of the Company, no such arrangement has been made till date. The Company should make necessary arrangement for the storage requirement for lean period and submit detailed report to the Government.”
- iii. Also, Point No. 12 of agreement between the Company and DOWR states “The Company would not claim as a matter of right to get the desired quantity of water during non-monsoon and lean period to meet their full industrial use and the Company has to make adequate storage facility in their own land for supply of water to their plant during such period.” (A copy of agreement has been supplied separately by the querist for the perusal of the Committee).
- iv. The storage facility created by the Company is only for few days and shall not be able to cater to the eventuality of not getting the water from the river during lean period which may go upto 2 months. Creating a storage facility for a period of 2 months is not practicably feasible for the Company. The Company’s decision (as stated in court order also) to invest in the activities of dredging and removal of shoal in the river is predominantly a measure to ensure that the flow of water is maintained even during lean period in future.
- v. Relevant paragraph for enabling asset, as per the querist in Indian Accounting Standard (Ind AS) 16, ‘Property, Plant and Equipment’ is as under:

“11 Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, *although not directly increasing the future economic benefits* of any particular existing item of property, plant and equipment, *may be necessary for an entity to obtain the future economic benefits from its other assets*. Such items of property, plant and equipment *qualify for recognition as assets* because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell

chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with Ind AS 36, Impairment of Assets.” (Emphasis supplied by the querist.)

- vi. In view of the above provision of Ind AS 16, the expenses on this project (removal of shoal and dredging) are in the nature of enabling asset since the expenses are incurred by the Company to ensure that flow of water is maintained even during lean period and will eventually **enable** the uninterrupted operations of the refinery. The activities relating to removal of shoal and dredging in the river is not giving direct benefit to the assets of the refinery but are necessary to enable the Company for deriving continuous benefits from the assets of its refinery. That is the reason the Company has voluntarily offered and agreed in the Court for undertaking these activities at its own cost.
- vii. Finally, on combined review of all the above facts and reading of the relevant paragraph of Ind AS 16, it is decided that the obligation arising on account of Court’s order for dredging work of the river should be treated as enabling assets of the Refinery assets. Thus, Rs. 319.14 crore should be capitalised as enabling assets with useful life as that of the related assets of refinery.
- viii. Timing of capitalization: Since the work is to be executed by public authorities at the cost of the Company, the expenditure on these enabling assets should be capitalised when the obligation is established, i.e., when the job for significant works has been executed by the authorities after the technical feasibility is established. The job of dredging and shoal removal has been awarded in F.Y. 2017-18 and 2018-19 respectively and is likely to be executed till F.Y. 2020-21.
- ix. Thus, the amount of commitment on this account should be shown as CWIP as and when the same is incurred, i.e., as and when the utilisation certificates are received from executing authorities for amount spent. Till such time, the amount given to authorities by the company should be treated/ shown as capital advance and balance amount should be shown as capital commitment in notes to accounts.

## **B. Query**

8. Considering the above background, the querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (a) Whether the expenditure which is incurred subsequent to the construction of assets but is necessary for continuing economic benefits from the main asset should be capitalised as enabling asset subsequently or whether the enabling asset can only be created at the time of construction of main assets/plant.
- (b) Whether the expenditure on creation/acquisition of public utility resources like removal of shoals and dredging work at the river bank which are essential for present operations and/or future expansion of the project incurred directly by the organization or through government agencies can be considered for capitalisation as enabling assets if the expenditure is necessary to obtain the future economic benefits from other assets.
- (c) In view of the above, whether the expenditure on removal of shoals and dredging work of the river being the requirement to maintain the water level in Mahanadi river and in turn ensuring the uninterrupted water supply at all times (including the lean season) to the project can be capitalised as enabling asset as per Ind AS 16.

- (d) Whether the accounting treatment and disclosure suggested in paragraph 7(ix) above for expenditure incurred/to be incurred out of High Court's order, which is necessary for continuity of the project, is in order.

### **C. Points considered by the Committee**

9. The Committee notes that the basic issue raised by the querist relates to the accounting treatment of the expenditure incurred on dredging and removal of shoals at the Mahanadi river bank, which is to be incurred for drawl of water for the Paradip refinery project of the Company as per the Orissa High Court's order. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, expenditure on other public interest activities, such as, installation of water treatment plant, donation to institute engaged in development works, provide high-tech ambulances to government hospitals, contribution for improvement of traffic signals light, and removal of old anicut, expenditure (if any) incurred on creation of water storage facility for lean months, charges for drawl of water, expenditure incurred towards Water Conservation Fund for construction of barrage/check dams, disclosure and presentation of various expenses, accounting as per previous GAAP (viz., under Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2006), accounting treatment on transition to Ind ASs, accounting for prior period errors (if any) under Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', Depreciation on refinery or other related assets, Component accounting under Ind AS 16, etc. The Committee has restricted the opinion only to the accounting issues under Indian Accounting Standards and not examined from legal perspective, such as, legal interpretation of the Court order (including compliance thereof) and the agreement submitted by the querist. Furthermore, the opinion expressed hereinafter lays down the principles to be followed while accounting without commenting on various figures or amounts of expenditure, etc. The Committee also wishes to point out that the term 'enabling asset/expenditure', as used by the querist in the extant case is nowhere used or defined in the accounting standards, rather is a general term; therefore, the Committee has hereinafter neither used this term nor expressed opinion in the context of what could be defined or considered as 'enabling asset/expenditure'.

10. At the outset, the Committee notes from the Facts of the Case that in February 2010, the Company started the construction work and laying of pipeline for transport of water from Mahanadi to Refinery Project, however, in F.Y. 2010-11, a PIL had been filed in the High Court of Orissa leading to prohibition of the construction work by the Court. The High Court constituted a technical expert committee to give its recommendations. After considering the recommendations of the technical expert committee and the willingness of the company to undertake peripheral developments including dredging activity, the Court vide its Order dated 27<sup>th</sup> February, 2012 gave the permission to continue the construction work. In this context, the Committee notes the following from the Court's order:

"8 So far as survey, dredging and removal of old Anicut are concerned, the work should be taken up at the earliest and it should be completed before the actual drawal of water from the reservoir is made by the Company. So, the Water Resources department shall submit the proposal to the Company, which shall place funds with the respective executing agencies as per the decision of the Water Resources Department and the Company. It shall be done within a period of two months from today."

From the above, the Committee notes that the expenditure on dredging and removal of shoal activities is necessarily required to be incurred by the Company pursuant to the Court's order as a pre-condition to resume the construction of the refinery. Further, these activities are also required to be undertaken and completed by the Company to ensure uninterrupted water

supply to the refinery, which is required for future operation of the refinery. In this regard, the Committee also notes from the Facts of the Case that the Company's decision to invest in the activities of dredging and removal of shoal in the river is also a measure to ensure that the flow of water is maintained even during lean period in future (which is also necessarily required to be incurred as per Court's order) as the storage facility created by the Company will cater to its water requirement only for few days and shall not be able to cater to the eventuality of not getting the water from the river during lean period which may go upto 2 months. Thus, the Committee understands that the activity of dredging and removal of shoal from the river is a condition necessary for undertaking the project (refinery) as a whole and it cannot be concluded that the construction work of refinery would have completed independent of or without agreeing to perform such activity. Therefore, the Committee is of the view that the cost of these activities can be considered as directly attributable to bringing the asset (refinery) to the location and condition necessary for it to be capable of operating in the manner intended by the Management. Accordingly, the cost of these activities should be capitalised as part of the refinery/asset cost as per the requirements of paragraph 16 of Ind AS 16 reproduced as below:

“16 The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.”

11. The Committee further notes the following requirements of Accounting Standard (AS) 29, 'Provisions, Contingent Liabilities and Contingent Assets', notified under the Companies (Accounting Standards) Rules, 2006<sup>2</sup> and Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets':

AS 29

***“10.1 A provision is a liability which can be measured only by using a substantial degree of estimation.”***

***“10.6 Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.”***

***“11. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. Obligations also arise from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner.”***

***“14. A provision should be recognised when:***

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<sup>2</sup> Subsequently, in respect of accounting periods commencing on or after April 1, 2021, Companies (Accounting Standards) Rules, 2006 (as amended from time to time) have been superseded by Companies (Accounting Standards) Rules, 2021.

- (a) *an enterprise has a present obligation as a result of a past event;*
- (b) *it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and*
- (c) *a reliable estimate can be made of the amount of the obligation.*

*If these conditions are not met, no provision should be recognised.”*

“16. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the enterprise has no realistic alternative to settling the obligation created by the event.”

“22. For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, i.e., the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an enterprise discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 68).”

35. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should be recognised in the statement of profit and loss.

*Ind AS 37*

**“A provision is a liability of uncertain timing or amount.**

**A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.**

**An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.**

**A legal obligation is an obligation that derives from:**

- (a) **a contract (through its explicit or implicit terms);**
- (b) **legislation; or**
- (c) **other operation of law.”**

**“14 A provision shall be recognised when:**

- (a) **an entity has a present obligation (legal or constructive) as a result of a past event;**
- (b) **it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
- (a) **a reliable estimate can be made of the amount of the obligation.**

**If these conditions are not met, no provision shall be recognised.**

### **Present Obligation**

**15 In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.”**

“23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).”

**“36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.”**

**“45 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.”**

From the above, the Committee notes that as per the requirements of AS 29/Ind AS 37, a provision should be recognised when there exists a present obligation involving incurrence of expenditure, arising from a past event that leaves no realistic alternative apart from settling that obligation. Since in the extant case, the Company will have to comply with the Order of the Hon’ble Court and undertake the activity of dredging and removal of shoal from the river involving outflow of resources, the Order gives rise to a present obligation for the Company for which a provision should be recognised, at the best estimate of the expenditure required to settle the present obligation.

12. The Committee notes that Ind AS 16 does envisage situations in which, an estimated amount of expenditure to be incurred at a far distant future date can be added as an element of cost of asset, such as:

“16 The cost of an item of property, plant and equipment comprises:

...

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.”

The Committee is of the view that the principle embedded in the above-reproduced paragraph can also be extended to costs which are directly attributable to bringing the asset (refinery in the extant case) to the location and condition necessary for it to be capable of operating in the manner intended by management, the obligation for which an entity incurs when the asset is acquired or constructed by the company, but where the amount or timing of cash outflow may not be certain as the final evaluation or work performed will determine the quantum and timing of payment. Accordingly, it would be but appropriate for the Company to make a

provision for such obligations/ liability to be added to cost of asset at initial recognition. Therefore, in the extant case, in the initial measurement of the cost of an asset, the provision for the dredging and removal of shoal activity should also have been taken into account by the Company. However, since the same has not been done by the Company, the Committee is of the view that the same should be accounted for as per the requirements of Ind AS 8 in the extant case.

13. With regard to presentation of the amounts paid to Odisha Construction company in respect of the dredging and removal of shoal activities, the Committee is of the view that the same should be adjusted against the provision made in respect of the expenditure on dredging and shoal activities, as discussed above.

#### **D. Opinion**

14. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 8 above:

- (a) The issue as to whether an expenditure incurred subsequent to construction of assets but necessary for continuing economic benefits from the main assets can be capitalised as enabling asset is a general question and not a specific query and hence the same cannot be answered by the Committee. Further, what can be considered and capitalised as an enabling asset has not been examined by the Committee as discussed in paragraph 9 above.
- (b) The activity of dredging and removal of shoal from the river is a condition necessary for undertaking the project (refinery) as a whole and it cannot be concluded that the construction work of refinery would have completed independent of or without agreeing to perform such activity. Therefore, the Committee is of the view that the costs of these activities can be considered as directly attributable to bringing the asset (refinery) to the location and condition necessary for it to be capable of operating in the manner intended by Management. Accordingly, the cost of these activities should be capitalised as part of the refinery/asset cost as per the requirements of Ind AS 16, as discussed in paragraph 10 above. However, since such activities are undertaken after commissioning of the refinery in the extant case, appropriate provision as per the requirements of the applicable accounting standard (AS 29/Ind AS 37) with regard to such expenditure (present obligation) should have been created by the Company and in the initial measurement of the cost of an asset, such provision should have been taken into account by the Company, as discussed in paragraphs 11 and 12 above. Since the same has not been done by the Company, the Committee is of the view that the same should be accounted for in accordance with the requirements of Ind AS 8 in the extant case. The term ‘enabling asset/expenditure’, as used by the querist in the extant case is nowhere used or defined in the Accounting Standards, rather is a general term; therefore, the Committee has not expressed opinion in the context of what could be defined or considered as ‘enabling asset/expenditure’, as discussed in paragraph 9 above.
- (c) Refer (b) above.
- (d) Refer to paragraph 13 above.