

Query No. 1

Subject: Accounting treatment of expenditure relating to indirect expenses which are compulsorily required to be incurred for construction of the project.¹

A. Facts of the Case

1. In order to enhance connectivity, improve access to citizens, reduce pollution, congestion and promote balanced sustainable growth in National Capital Region (NCR), NCR Planning Board (NCRPB) prepared 'Functional Plan on Transport for National Capital Region-2032', which recommended development of multi-modal transport system with special emphasis on dedicated rail based high-speed, high-frequency Regional Rapid Transit System (RRTS) for connecting major regional centres in NCR.
2. RRTS is a dedicated rail based inter-state high speed, high frequency, high throughput, reliable transit system with a design speed of 180 km/h and an average speed of around 100 km/h. Once operational, it will be the fastest, most comfortable and safest mode of commuter transport in NCR. Such high-speed seamless connectivity will not only reduce pollution and congestion in NCR, but will also drive balanced and sustainable urban development in the entire region.
3. The Government of India joined hands with four State Governments, Delhi, Uttar Pradesh, Haryana and Rajasthan to create a joint venture, N Corporation Limited (hereinafter referred to as 'the Company' or 'the Corporation') with 50% shareholding from Government of India (through Ministry of Housing and Urban Affairs (MoHUA), Ministry of Railways and NCRPB) and 12.5% from each participating State Governments of Haryana, NCT of Delhi, Rajasthan, and Uttar Pradesh. The Company has been formed in accordance with Government of India order dated 30.07.2013 and has been mandated for designing, developing, implementing, financing, operating and maintaining RRTS projects in the National Capital Region of India. Unlike metro rail projects, which are promoted by the respective State Governments, RRTS is a multi-state, central-sector project.
4. The first corridor of phase I, i.e. Delhi – Ghaziabad – Meerut RRTS, has been sanctioned for implementation vide MoHUA, Government of India Order No. K-14011/17/2017-MRTS-I (Vol.II) dated March 07, 2019. The corridor has a length of 82.15 Km and will have 24 stations. Construction of the corridor has started in May 2019 and is planned to be operationalised by the year 2025. Two other corridors, are under various stages of approval with the Government.
5. The querist has informed that at present, the construction phase of the Delhi-Ghaziabad-Meerut RRTS Project is going on and the Company does not have any operating income. The operating income shall commence with commercial operation of the RRTS. The Company has deployed its entire manpower for the sole purpose of construction of RRTS. Managing Director and other directors are actively involved in construction related activities of the project.

¹ Opinion finalised by the Committee on 3.4.2021.

6. The querist has further informed that in order to facilitate the construction of the project, the Company has opened site offices and a corporate office which have been either taken on rent or got constructed. The details are as follows:

a) Site Offices:

- i. Meerut
- ii. Modi Nagar
- iii. Ghaziabad
- iv. Gurugram
- v. Delhi

The site offices house the civil and electrical departments and are responsible for supervision of civil construction including elevated corridors, tunnels, tracks, stations, erection of viaducts, signal system and other electrical installations and plant & machinery at different locations of the project. Employees working in site offices are interacting with contractors and supervising the construction of the project. These offices are headed by the Chief Project Managers. The Company has 363 employees out of which 245 are posted at site offices as on 31st Jan 2021.

b) Corporate Office in Delhi:

The Corporate office has 118 employees and houses the following departments:

- i. Design, Architecture and Drawings
- ii. Track
- iii. Electrical
- iv. Traction
- v. Electro-Mechanical
- vi. Telecom
- vii. Signalling
- viii. Procurement
- ix. Rolling stock
- x. IT Infrastructure (for project planning and monitoring)
- xi. Finance
- xii. Human Resource (HR) and Administration
- xiii. Company Secretariat

The Company has five full time directors namely Managing Director, Director – Finance, Director – Project, Director – System & Operation and Director – Electrical & Rolling Stock. Designing, Architecture, Track, Traction, Rolling Stock, and IT infrastructure, etc. are various proponents for the construction activities, as such Departments at serial no. (i) to (x) are exclusively involved in construction of projects. Further, employees working in finance department are majorly engaged in project related activities, like, bid evaluations, selections of contractor and suppliers, project monitoring and payment to contractors and suppliers etc. Out of 118 employees, 107 employees are working in departments at Serial No. 6(b) (i) to (x).

7. Besides making payments for purchase of land, payments to contractors for construction of project, payments to suppliers for procurement of construction material and plant and machinery, the Company has been incurring certain establishment expenses most of

which are directly linked to the construction of the project and allied activities to support the construction. As project is in construction phase and the Company does not have any operating income and past reserves, the above expenses are being met out of the capital grants/subordinated debt received by the Company from its promoters and debt undertaken for the project.

8. The Company has identified the aforesaid expenses which are directly attributable to the construction of the project and proposes to capitalise those expenses in accordance with Indian Accounting Standard (Ind AS) 16, 'Property, Plant and Equipment' (as shown in Table in paragraph 9 below), which provide that the costs directly attributable for bringing the project to the location and condition necessary for it to be capable of operating in the manner intended by management constitute the cost of an item of Property, Plant and Equipment.

9. The querist has stated that while identifying the direct expenses or expenses which are linked with the construction or to support the construction activities, the purpose of incurring such expenses have been kept in view. Details of such expenses are mentioned as under:

Sl.	Account Head	Rationale for Capitalisation (View of the Company)
1.	Salaries and wages	<p>The salaries and wages of employee include pay and allowances and are in line with the employee benefits as mentioned in Ind AS 19, 'Employee Benefits'. The Company has given following accounting treatment to salaries and wages:</p> <p>a) Salaries and wages of employees working in the site offices are capitalised since these employees are directly involved in various activities relating to construction of project (Refer paragraph 6(a) above.</p> <p>b) Salaries and wages of the employees in the following departments in Corporate Office are capitalised in terms of paragraph 17 (a) of Ind AS 16, since the employees working in these departments are exclusively performing the activities relating to construction and execution of the project (Refer paragraph 6(b) above):</p> <ol style="list-style-type: none"> i. Design, Architecture and Drawings ii. Track iii. Electrical iv. Traction v. Electro-Mechanical vi. Telecom vii. Signalling viii. Procurement ix. Rolling stock x. IT Infrastructure <p>c) Salaries and wages of employees in finance department in Corporate Office are capitalised as employees working in finance department are mainly</p>

Sl.	Account Head	Rationale for Capitalisation (View of the Company)
	c. Fee to Tax Consultants	<p>Stakeholders' consultations have been conducted at various stages of the DPR approval processes and concerns of these stakeholders have been addressed.</p> <p>At an institutional level, the primary stakeholders not only include the Governments of four States and Government of India and their concerned Ministries and Departments but also include local bodies, development authorities, utilities, civil and police administration, regulatory authorities, environmental authorities, NHAI, ASI, print and electronic media to name a few.</p> <p>At micro level, the stakeholders include the project affected persons due to land acquisition. With the progress of projects on ground, stakeholders' engagement requirements are expected to grow. The ongoing construction work of Delhi–Ghaziabad–Meerut corridor has also impacted local residents which the Company wants to address in a coherent manner.</p> <p>All the important processes including, development and implementation of traffic diversion plans, removal of encroachments, land acquisition, implementing innovative sources of financing, require public awareness and consultation besides engagement and consultation with different agencies/stakeholders involved in the process.</p> <p>The Company has engaged a Public Relations Agency on retainership basis for helping it in public relations work including social media management and stakeholder engagement for all its corridors and works, which is essential for seamless completion of the project.</p> <p>Since, the above activities are directly linked to construction of the project, the fee paid to Project PR Agency has been capitalised.</p> <p>Fee paid to Tax Consultant on retainership or otherwise for seeking advices on the levy of custom duties on import of items for project and applicability of GST on the works contracts has been capitalised. As GST and Custom duty form major part of the cost of the project, i.e. Rs. 2,510 crore against the total estimated cost of Delhi Meerut RRTS Corridor of Rs. 30,274 crore. It is therefore, necessary to obtain expert advice on these activities so as to properly</p>

Sl.	Account Head	Rationale for Capitalisation (View of the Company)
		comply with the provision of these laws and to avoid interest and penalties, which can affect the cost of the project.
4.	Training	<p>Expenditure on trainings meant for upgradation of skills in the field of designing, signalling, telecommunication, track, tunnelling, etc. have been capitalised as this would directly benefit the construction of the project. Similarly, training on GST, FEMA and customs etc. have also been capitalised as these matters are directly linked to import of construction material and works contract for the project.</p> <p>However, expenses on training on Ind AS, HR, admin related issues are charged to expenses.</p>
5.	Books and Periodicals	<p>Expenditure incurred on procurement/subscription of manual and codes on Standards, engineering etc. are capitalised. These books and codes are essentially required for the construction of project with required standards and quality. There are major work items for which quality and methodology are based on certain codes, like BIS Codes, RDSO Codes, UIC Codes etc.</p> <p>However, expenditure incurred on general books, newspapers and non-technical magazine/literature is charged off to the expenses.</p>
6.	Fee and Subscription	<p>The Company and its employees are the members of certain technical and professional bodies. These institutions include International Union of Railways (IUR), I-Metro (Indian Forum of all Metro Rail Companies), Institution of Engineers, Indian Institute of Engineers, AMIE, Institute of Chartered Accountants of India etc. These institutes provide very useful literature and conduct various seminars and workshops in the related areas of construction of the project. The annual membership fee paid to such institutes has been capitalised as it helps in the professional development of employees engaged in the construction.</p> <p>However, fee and subscription for membership of India Habitat Centre and other non-technical institutions are charged off to the expenses.</p>
7.	Office rent and office maintenance (Common expenses)	<p>There are certain expenses which have been incurred on facilities which are commonly used by the employees directly involved in the construction of the project and other employees as well. These expenses include the following items:</p> <ol style="list-style-type: none"> i. Office rent ii. Office maintenance which includes

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		<p>housekeeping, security, office repairs, electricity and power, printing and stationery, depreciation of office building, furniture and fixtures and telephone and internet charges.</p> <p>The above expenses are necessary to facilitate the construction of the project. In view of this, the Company has partly capitalised expenditure as a part of overall cost of the project. In order to derive the expenses attributable to the construction of the project, one way is to calculate it on actual basis which is very cumbersome, lengthy and costly process in comparison to the amount involved and the benefit that will accrue to the Company. Hence, for the sake of convenience, the Company has allocated these expenses in the ratio of area occupied by employees engaged in construction activities, i.e. employees working in departments at Sl. No. (i) to (x) of paragraph 6 (b) and employees engaged in Human Resource, Administration and Secretarial activities based on management estimate.</p> <p>However, some such expenses incurred for site offices have been capitalised as all employees at site are engaged in construction activities.</p>
8.	Vehicle Running and Maintenance	<p>Vehicles are provided to the employees for discharging the official duties and include operation and maintenance of hired and owned vehicles.</p> <p>a. Expenses incurred on running and maintenance of vehicles in use by the employees at all site offices are capitalised.</p> <p>b. Running and maintenance expenses of vehicles in use by the employees at Corporate Office have been capitalised for employees working in departments at Sl. No. (i) to (x) of paragraph 6 (b) above. Further, vehicle expenses of Managing Director and functional directors have also been capitalised. (refer (1) and (2) above)</p>
9.	Meeting and Conference	<p>Expenses incurred on meetings and conferences with various stakeholders in connection with matters relating to construction activities like meeting with contractors/suppliers/Government officials/utility agencies etc. in relation to project implementation have been capitalised.</p> <p>However, meeting and conference expenses on administrative activities, like AGM, Board meeting, Committee of Directors meeting, meeting for</p>

Sl.	Account Head	Rationale for Capitalisation (View of the Company)
		administration and HR related issues etc. are charged to expenses.

B. Query

10. In view of above, the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) has been sought as to whether the accounting treatment of the above-mentioned expenses incurred for the project is correct considering the requirements of Ind AS 16.

C. Points considered by the Committee

11. The Committee notes that the basic issue raised in the query relates to accounting treatment of various expenses incurred during the construction of the RRTS Project (hereinafter referred to as 'the Project'). The Committee has, therefore, considered only this issue and has not examined any other issue(s) that may arise from the Facts of the Case, such as, accounting for any other expense incurred by the Company in relation to the project, allocation of expenses to various departments, accounting for the joint venture agreement between the Government of India and participating State Governments, accounting treatment of capital grant/subordinate debt received by the Company, etc.

12. At the outset, the Committee wishes to point out that various expenses are incurred during construction period. However, it is not necessary that all expenses incurred during construction are eligible to be capitalised to the project/asset being constructed. Similarly, just because the only activity undertaken by the Company at present is the construction activity does not mean that every expense incurred by the Company is directly linked or attributable to the construction activities. The capitalisation of an item of cost to a fixed asset/project depends upon the nature of such expenses in relation to the construction/acquisition activity in the context of requirements in this regard laid down in the applicable Indian Accounting Standards (Ind ASs). The Committee notes from the Facts of the Case that the Company in the extant case has incurred various indirect expenses during the project implementation. In this context, the Committee notes the following paragraphs of Ind AS 16, 'Property, Plant and Equipment', notified under the Companies (Indian Accounting Standards) Rules, 2015:

“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.

17 Examples of directly attributable costs are:

- (a) costs of employee benefits (as defined in Ind AS 19, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) costs of site preparation;
- (c) initial delivery and handling costs;
- (d) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)²; and
- (f) professional fees.”

“19 Examples of costs that are not costs of an item of property, plant and equipment are:

- (a) costs of opening a new facility;
- (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- (d) administration and other general overhead costs.”

13. From the above, the Committee notes that the basic principle to be applied while capitalising an item of cost to a property, plant and equipment (PPE) is that it is 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. The Committee is of the view that ‘directly attributable’ costs are generally such costs which are necessary to enable the construction activity, i.e. these costs are directly related to the construction activity and without the incurrance of which the asset cannot be brought to the location and condition necessary for it to be capable of operating in the manner intended by management. Accordingly, the Committee is of the view that the expenditure on salaries and wages, travelling expenses, legal and professional fee, training expenses, books and periodicals expenses, fee and subscription, office rent and office maintenance, vehicle running and maintenance expenses and meeting and conferences expenses incurred by the Company can be capitalised only if these are directly attributable to bringing the project or the related PPE(s) to the location and condition necessary for it/them to be capable of operating in the manner intended by the management.

14. The Committee further notes that paragraph 19 of Ind AS 16, as reproduced above states that administration and other general overhead costs are examples of the costs that are not costs of an item of property, plant and equipment. In view of above-mentioned requirements, the Committee examines the expenses as referred by querist in paragraph 9 above in the following paragraphs.

Salaries and Wages

² This paragraph has been subsequently revised through Companies (Indian Accounting Standards) Amendment Rules, 2022, notified vide Notification No. G.S.R 255(E) dated 23rd March, 2022 which came into force with effect from April 1, 2022.

15. With regard to salaries and wages, the Committee notes that paragraph 17 of Ind AS 16 gives examples of directly attributable costs and it includes costs of employee benefits (as defined in Ind AS 19, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment. Therefore, the Committee is of the view that the employee benefit *expenses arising directly from the construction or acquisition* of the project/PPE, such as, employee benefit costs of an entity's own employees, workers, labourers, engineers, architects, etc. engaged in construction activity should only be capitalised and rest should be charged to the Statement of Profit and Loss as and when incurred.

Accordingly, if the employees working in the site office and employees in (i) Design, Architecture and Drawings, (ii) Track, (iii) Electrical, (iv) Traction, (v) Electro-Mechanical, (vi) Telecom, (vii) Signalling, (viii) Procurement, (ix) Rolling stock and (x) IT Infrastructure (for project planning and monitoring) departments in the Corporate Office are engaged in construction activity, the costs of employee benefits of these employees can be considered as directly attributable costs to the project and can accordingly be capitalised with the cost of the project/PPE concerned. The Company will however need to maintain detailed records to substantiate such claim.

However, the employees working in other departments at the corporate office, such as finance, HR and administration, and company secretariat, although may be engaged in activities in connection with construction, the cost of employee benefits in these departments cannot be considered to be arising directly from construction activities or acquisition of PPE or project. Therefore, these costs cannot be considered as directly attributable costs to the PPE or Project and can not be capitalised.

Further, with regard to salaries and wages of Managing Director and functional directors, the Committee notes that it has been stated by the querist that the Company has 4 functional directors, viz., Director-Finance, Director-Project, Director-System & Operations and Director-Electricals & Rolling Stock and that the Managing Director and the functional directors are mostly occupied in overseeing the project execution. The Committee is of the view that normally, Managing Director and Director-Finance are involved in overall supervision and management of the activities of the Company and not only the construction related activities. Therefore, the costs of employee benefits incurred thereon cannot be ordinarily considered to be arising directly from the construction or acquisition of the PPE/Project; rather these expenses are in the nature of administrative and general overheads and should, ordinarily, not be capitalised with the item of PPE/Project. However in certain exceptional cases where it can be clearly demonstrated that these are directly attributable cost for bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management, these can be capitalised. With regard to other functional directors, the Committee is of the view that Directors Project, System & Operations and Electricals & Rolling Stock are normally engaged in the construction activities and the cost of employee benefits incurred thereon can be considered to arise directly from the construction/acquisition of PPE/Project. Therefore, to the extent these functional directors are engaged in construction activity, the costs of employee benefits incurred thereon are directly attributable costs and can be capitalised.

Travelling Expense

16. With regard to travelling expenses, the Committee notes that these expenses have been stated by the querist to be incurred for inspection of materials, on site visits, for attending technical trainings, workshops held for project execution, for study tours and other travelling expenses incurred for construction/ project execution. The Committee is of the view that it needs to be examined keeping in view the nature and purpose of such expenses so as to determine the accounting treatment of such expenses. These expenses can be capitalised with the cost of a PPE/project only to the extent these are directly attributable to the construction/acquisition of a PPE/project for bringing it to the location and condition necessary for it to be capable of operating in the manner intended by the management. The Committee is of the view that to the extent travelling expenses are incurred for visiting the construction site to enable or undertake construction activity, these can be considered to be directly attributable to the PPE/Project being constructed and can be capitalised. However, the travelling expenses for attending trainings, workshops held for project execution, for study tours etc. cannot be considered as incurred for construction of any PPE/Project or for bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management. Accordingly, these cannot be considered as directly attributable expenses and capitalised to the PPE/Project as per the requirements of Ind AS 16.

Legal and Professional Fee

17. With regard to legal and professional fee paid to lawyers, project PR Consultants and tax consultants, the Committee is of the view that although in the extant case, some of these expenses are incurred for facilitating construction (or for compliance with the legal requirements in order to ensure seamless construction/completion of the project or to avoid unnecessary increase in the construction cost), these cannot be considered as directly attributable to construction of any PPE(s)/Project or for bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, these expenses cannot be capitalised as cost of an item of PPE/Project.

Training Expense

18. With regard to training expenses, the Committee notes from the Facts of the Case that it includes training for upgradation of skills in the field of designing, signalling, telecommunication, track, tunnelling, etc. and training on GST, FEMA and Customs etc. The Committee also notes that paragraph 19 (c) of Ind AS 16 specifically states that the costs of staff training cannot be capitalised. Considering the nature of training expenses in the extant case, the Committee is of the view that though the imparting of training for construction purposes may facilitate the construction of the PPE/Project, these cannot be considered as directly attributable to construction of any PPE(s)/Project or for bringing the PPE/Project to the location and condition necessary for it/them to be capable of operating in the manner intended by management. Similarly, expenses of other trainings on GST, FEMA, customs etc. cannot be considered as directly attributable to construction activities as per the requirements of Ind AS 16. Therefore, these expenses cannot be capitalised as cost of an item of PPE/Project.

Books and Periodicals Expense

19. With regard to expenses on books and periodicals, the Committee is of the view that such expenses are not ordinarily directly attributable to construction/acquisition and therefore, are charged to the Statement of Profit and Loss unless it can be demonstrated that these are directly attributable to construction as aforementioned. In the extant case, the expense on general books, newspapers and non-technical magazine/literature should be charged to the Statement of Profit and Loss. Further, the Committee notes that the above expenses also include expenditure incurred on procurement/subscription of manual and codes on Standards, engineering etc. which have been stated by the querist to be capitalised as these books and codes are essentially required for the construction of project with required standards and quality and there are major work items for which quality and methodology is based on certain codes, like BIS Codes, RDSO Codes, UIC Codes etc. Accordingly, the Committee is of the view that to the extent expenses on such technical and quality/standards related books and periodicals are essential for the construction activity and can be considered as directly attributable to construction as aforementioned, these may be capitalised with the Project/PPE concerned. However, the Company will have to clearly demonstrate that the expenditure on such technical books and periodicals are directly attributable to construction of the Project/PPE concerned.

Fee and Subscription

20. With regard to expenditure on fee and subscription, the Committee notes from the facts submitted that the Company pays annual membership fees for various technical institutions for professional development of employees engaged in the construction as well as for membership of non-technical institutions. The Committee is of the view that although some of these expenses are for professional development of employees involved in construction, these expenses cannot be considered as essential for or directly attributable to construction of PPE/Project or for bringing the PPE/Project to the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, the same cannot be capitalised to the PPE/Project.

Office rent and Office maintenance

21. With regard to office rent, the Committee is of the view that generally there is direct relation between the site office and the construction activity and thus the rent expense in relation to site offices may be considered as directly attributable cost and therefore, can be capitalised till the time the item of PPE/Project is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

With regard to rent of Corporate Office/other office, the Committee is of the view that it is generally used for the overall supervision, strategic planning and other related activities which are not directly related to construction as such and therefore, the rent expense of Corporate Office/other office should not be considered as cost of the project. However, if the construction/project execution related activities are also being performed at Corporate Office/other office and if these activities can be considered as 'directly attributable' as discussed above, then only to that extent, rent should be capitalised as the cost of the Project/PPE. Depreciation of building of Corporate Office/other office should also be considered for

capitalisation with the Project/PPE only if and to the extent the office is being used for construction/project execution related activities, as discussed above.

Further, with regard to office maintenance (common expenses), which includes housekeeping, security, office repairs, electricity and power, printing and stationery, depreciation of furniture and fixtures, telephone and internet charges, the Committee is of the view that these expenses are purely in the nature of administration expenses, as given in paragraph 19(d) of Ind AS 16, which cannot be considered as 'directly attributable cost' of construction of the PPE/Project and therefore, these cannot be capitalised as cost of an item of PPE/Project.

Vehicle running and maintenance

22. With regard to vehicle running and maintenance expenses, the Committee notes from the facts supplied that it includes vehicle running and maintenance expenditure for vehicles used by employees for discharging their duties, vehicles used by employees at site office, some specific departments at Corporate Office and vehicle expenses of Managing Director and functional directors. The Committee is of the view of that generally vehicle running and maintenance expenses are in the nature of administrative and general overhead expenditure and should not be considered as 'directly attributable cost' of construction of the PPE/Project. However, to the extent the vehicles are used by the employees who are engaged in the construction activity (as discussed in paragraph 15 above), the vehicle running and maintenance can be considered as directly attributable to the PPE/Project and can be capitalised as cost of an item of PPE/Project.

Meeting and Conference Expenses

23. With regard to meeting and conferences expenses, the Committee is of the view that these expenses are not ordinarily directly attributable to construction/acquisition and, therefore, are charged to the Statement of Profit and Loss unless it can be demonstrated that these are directly attributable to construction as aforementioned. The Company should examine expenses keeping in view the nature and purpose of such expenses as to whether or not these are directly attributable to the construction of the PPE/Project for bringing it to its working condition for its intended use so as to determine the accounting treatment of such expenses. These expenses can be capitalised with the cost of the PPE/Project only to the extent these are directly attributable to the construction of the PPE/Project for bringing it to its working condition for its intended use.

D. Opinion

24. On the basis of the above, the Committee is of the opinion that the Company's accounting treatment of various expenses incurred during the construction of the Project is not completely correct; the Company should follow the accounting treatment, as discussed in paragraphs 12 to 23 above.
