

Query No. 15

Subject: Classification/Presentation of amount paid for acquisition of Land as Inventory or Advance under Ind AS framework.¹

A. Facts of the Case

1. A Company (hereinafter referred to as ‘the Company’) is a Public Sector Undertaking (PSU) under the aegis of Ministry of Housing & Urban Affairs, Government of India established in the year 1960 as a construction arm of the Government of India. The Company has achieved Navratna status in the year 2014. The Company as a group has four operational subsidiaries and several Joint ventures under its umbrella. The Company operates into three business segments (a) Project Management Consultancy (PMC); (b) Real Estate; and (c) Engineering, Procurement and Construction (EPC).

Under PMC segment, the Company executes cost plus contracts obtained on either nomination basis or through competitive bidding. The projects are executed by contractors appointed by the Company through transparent tendering process.

Under Real Estate segment, the Company works as a developer, procures land, gets the works executed by entering into contractual engagements with contractors and the project is sold in pre-construction and post-construction stages. Marketing is done by the Company only.

Under EPC segment, the Company takes contract at fixed prices and the work is executed through sub-contractors.

2. Indian Accounting Standards (Ind AS) were introduced on the Company w.e.f. 01.04.2016. The accounts of the financial year (F.Y.) 2016-17 were prepared in accordance with Ind AS with comparatives of F.Y. 2015-16 and opening balance sheet as on 01.04.2015.

3. Ghaziabad Development Authority (GDA) has allotted a Group Housing Plot admeasuring 16225.05 square meter (sqm) at Ghaziabad to the Company in the year 2015. The Company has paid full consideration to GDA as per allotment letter and recognised the same as land inventory in the year 2015. While conveyance deed/ lease deed in respect of the said plots are yet to be executed, the possession of plot situated at Ghaziabad could not be obtained due to raising of additional demand for infrastructure charges of Rs. 462.41 lakh by Ghaziabad Development Authority, which the Company did not accept.

4. In this regard, the Company wrote to GDA for cancellation of the plot and requested to refund full consideration amount with interest to the Company. After Vigorous pursuance, GDA has given 2 options: either to execute the conveyance deed after paying infrastructure surcharge; or withdrawal of the allotment after deducting 10% of land consideration amount vide GDA letter dated 17.01.2022.

5. Thereafter, a letter dated 13.5.2022 was sent to Principal Secretary, Housing and Urban Planning, UP from Chairman-cum-Managing Director of the Company wherein it has requested to give necessary instructions to GDA for execution of sale deed on the same rate as informed vide allotment letter or to refund the complete consideration amount with interest.

¹ Opinion finalised by the Committee on 8.5.2023.

6. The Company has different views, i.e., whether the Company should continue to present the consideration paid to GDA as land inventory or to transfer the amount as advance since the GDA has given 2 options: either to execute the conveyance deed after paying infrastructure surcharge or withdrawal of the allotment after deducting 10% of land consideration amount vide GDA letter dated 17.01.2022; and the Company has also sent a letter to Principal Secretary, Housing and Urban Planning, UP wherein it has requested to give necessary instruction to GDA for execution of sale deed on the same rate as informed vide allotment letter or to refund the complete consideration amount with interest.

B. Query

7. On the basis of above, the querist has sought the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India as to whether the Company may continue to present the consideration paid to GDA for land acquisition as 'Land Inventory' or transfer the same to 'Advance'; or any other suitable treatment is required as per applicable Ind AS.

C. Points considered by the Committee

8. The Committee notes that the basic issue raised by the querist relates to the classification/presentation of amount paid for acquisition of land as 'Inventory' or 'Advance'. 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, accounting for its various business segments, computation of consideration to be paid to GDA and refund amount with or without interest, measurement of amount to be paid including requirements of impairment, whether any provision or contingent liability is required to be created or disclosed in respect of infrastructure charges as per the requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', accounting in the situation the Company surrenders the land or terminates/cancels the allotment of land as per allotment letter, current vs. non-current classification and presentation requirements as per Schedule III to the Companies Act, 2013, whether the Company is entitled to receive a freehold land or only a right-of-use of land, etc. Further, the Indian Accounting Standards referred to in the Opinion are the Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time. Further, the opinion expressed hereinafter is purely from accounting perspective and not from the legal perspective, such as, legal interpretation of allotment and subsequent letter by GDA, etc.

9. The Committee notes and understands from the Facts of the Case that Ghaziabad Development Authority (GDA) has allotted a Group Housing Plot to the Company in the year 2015. The Company has paid full consideration to GDA as per allotment letter and recognised the same as land inventory in the year 2015. While conveyance deed/ lease deed in respect of the said plots is yet to be executed, the possession of plot situated at Ghaziabad could not be obtained due to raising of additional demand for infrastructure charges by GDA, which the Company did not accept. Therefore, a letter has been sent to Principal Secretary, Housing and Urban Planning of the State by the Company requesting to give necessary instructions to GDA for execution of sale deed on the same rate, i.e., without infrastructure charges and in case, sale deed cannot be executed, the Company should get the refund of the complete consideration amount with interest. Thus, the Committee understands that at present, the Company has not cancelled or terminated the allotment or surrendered the land and therefore, the settlement of the contract for allotment of land is in terms of land only and not in terms of cash or another financial asset.

10. At the outset, the Committee examines that whether there exists an ‘asset’ and what the asset is in the extant case, viz., ‘land’ or ‘advance paid for land’. In this regard, the Committee notes the requirements of ‘Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS)’, issued by the Institute of Chartered Accountants of India as follows:

- “4.3 An asset is a present economic resource controlled by the entity as a result of past events.
- 4.4 An economic resource is a right that has the potential to produce economic benefits.
- 4.5 This section discusses three aspects of those definitions:
 - (a) right (see paragraphs 4.6–4.13);
 - (b) potential to produce economic benefits (see paragraphs 4.14–4.18); and
 - (c) control (see paragraphs 4.19–4.25).

Right

- 4.6 Rights that have the potential to produce economic benefits take many forms, including:
 - (a) rights that correspond to an obligation of another party (see paragraph 4.39), for example:
 - (i) rights to receive cash.
 - (ii) rights to receive goods or services.
 - (iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable or an option to buy an economic resource.
 - (iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs (see paragraph 4.37).
 - (b) rights that do not correspond to an obligation of another party, for example:
 - (i) rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object.
 - (ii) rights to use intellectual property.”

“Potential to produce economic benefits

- 4.14 An economic resource is a right that has the potential to produce economic benefits. For that potential to exist, it does not need to be certain, or even likely,

that the right will produce economic benefits. It is only necessary that the right already exists and that, in at least one circumstance, it would produce for the entity economic benefits beyond those available to all other parties.”

“Control

- 4.19 Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. For example, an entity may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. In such cases, the entity’s asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.
- 4.20 An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.”

The Committee notes from the above that an asset can be recognised only when there is: (a) right; (b) potential to produce economic benefits; and (c) control over a resource. In the extant case, even the possession of the plot has not been obtained by the Company and the sale deed is yet to be executed. Thus, the Company does not have any right over the land. Therefore, there is no potential of future economic benefits from land as an asset in the extant case. As far as control is concerned, the Committee notes that the Company does not have the ability to direct the use of land or to prevent other parties from directing the use or obtaining benefits from the land in the absence of possession of land. Thus, at present, the land does not meet the definition of asset as given in the Conceptual Framework, and therefore, land is not an asset for the Company. Accordingly, the Committee is of the view that in the extant case, the land should not be recognised as an asset in the financial statements of the Company and hence, the question of classifying the same as ‘Inventory’ does not arise. Further, the advance paid to GDA gives the Company right to receive the land on completion of necessary formalities, and therefore, advance has the potential to produce economic benefits for the Company. Therefore ‘advance paid for land’ meets the definition of ‘asset’ for the Company and should be recognised as an asset in its financial statements.

11. With regard to the accounting for ‘advance given for land’, the Committee notes the following paragraphs of Ind AS 32, ‘Financial Instruments: Presentation’:

“A *financial asset* is any asset that is:

- (a) cash;**
- (b) an equity instrument of another entity;**
- (c) a contractual right:**
 - (i) to receive cash or another financial asset from another entity; or**
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or**

...”

“AG11 Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.”

The Committee notes from the above that the assets for which future economic benefit is the receipt of a good rather than the right to receive cash or another financial asset are not financial assets. Since advance paid for land in the extant case will give rise to future economic benefits in the form of the receipt of land, rather than the right to receive cash, the Committee is of the view that same should be accounted for as a non-financial asset in the financial statements of the Company with appropriate nomenclature and adequate disclosures considering the presentation and disclosure requirements of Division II of Schedule III to the Companies Act, 2013.

D. Opinion

12. On the basis of the above, the Committee is of the opinion on the issue raised in paragraph 7 that the Company should not continue to present the consideration paid to GDA for land acquisition as ‘Land Inventory’; rather the same should be accounted for as a non-financial asset, such as advance paid for land, in the financial statements of the Company with appropriate nomenclature and adequate disclosures considering the presentation and disclosure requirements of Division II of Schedule III to the Companies Act, 2013, as discussed in paragraphs 10 and 11 above.
