

Query No. 19

Subject: Presentation of interest payable and depreciation for earlier years in the Statement of Profit and Loss.¹

A. Facts of the Case

1. A Corporation (hereinafter referred to as ‘the Company’ or ‘the Corporation’), which is a joint venture (JV) of the Government of India and the Government of National Capital Territory of Delhi, proposed implementation of the Airport Line project. The said project was to be implemented as a Public Private Partnership (PPP) Model. The Concessionaire was also to operate and maintain the project during the concession period.

2. The querist has informed that in the process of international competitive bidding, a consortium consisting of a JV of R Ltd. was selected as the successful bidder. The Concession Agreement was executed on 25.08.2008; the JV of R Ltd. formed a Special Purpose Vehicle (SPV) namely D Ltd. for the purpose of implementation of the project as per terms and conditions of the Concession Agreement. It was agreed between D Ltd. and the Corporation that all civil works as well as appointment of consultants, land acquisition and other clearances from the Government and other authorities have to be obtained by the Corporation and the design, supply, installation, testing and commissioning of various systems like rolling stock, power supply, overhead equipment, signalling, track system, platform, screen doors, ventilation, architectural finishing etc. were to be provided by D Ltd. As per the terms and conditions of the Concession Agreement, D Ltd. was to operate Airport Line for 30 years and thereafter hand over the Airport Line to the Corporation.

3. The querist has further informed that the commercial operation of Airport Line was started on 23.02.2011. This is called Revenue Operation Date (ROD). Accounting treatment followed by the Corporation during construction and after ROD is as follows:

Before ROD, all capital expenditure incurred by the Corporation was accounted for as Capital work in progress (CWIP) and at the time of start of commercial operations, the Corporation capitalised the assets of Airport Line, at the cost incurred by it (towards civil works) plus notional amount of Re. 1/- (towards costs incurred by D Ltd.). This is in accordance with Accounting policy No. 2.6 of the Company for creation of assets under Public Private Partnership (PPP) Model.

4. On 23.05.2012, D Ltd. pointed out certain defects in the viaduct related to bearings and grout material used in fixing bearings and stopped its operations w.e.f. 08.07.2012. Thereafter, on 09.07.2012, a notice was issued by D Ltd., asking the Corporation to cure the defects in the Corporation’s works within a period of 90 days from the date of the notice, failing which it shall be treated as material breach under the Concession Agreement.

5. The Corporation got the repair works executed. But D Ltd. claimed that the defects pointed out in the notice dated 09.07.2012 were not cured within a period of 90 days, resulting in an ‘Event of Default’ under the Concession Agreement, and again issued notice on 08.10.2012 for terminating the Concession Agreement w.e.f. 07.01.2013. The Corporation claimed that the termination notice issued by D Ltd. is in violation of the Concession Agreement and unwarranted; and invoked arbitration under Article 36.2 of the Concession

¹ Opinion finalised by the Committee on 11.7.2023.

Agreement. Meanwhile, after completion of repair works by the Corporation and on issue of Safety Certificate by the Commissioner of Metro Railway Safety (CMRS), D Ltd. agreed to restart the line from 22.01.2013 on behalf of the Corporation.

6. Again, on 27th June 2013, the Concessionaire served another notice on the Corporation conveying inter-alia that D Ltd. intends to stop the operations on Airport Line w.e.f. 1st July 2013. The Board of the Corporation called emergency meeting on 28th June 2013 and examined the various available options and after detailed discussions and deliberations, decided that the notice given by the Concessionaire is in violation of the Concession Agreement and unwarranted; and decided to take over complete operation and maintenance of the Airport Line at the risk and cost of D Ltd. in the larger public interest w.e.f. 01.07.2013.

Accounting treatment and disclosures: After taking over of operations of Airport Line, all transactions pertaining to Airport Line are separately accounted for by the Corporation and net operational deficit/surplus, as the case may be, is shown as recoverable from/payable to D Ltd. All these facts of the case, along with contingent liabilities, were also suitably disclosed in the financial statements of each respective year from financial year (F.Y.) 2013-14 onwards up to F.Y. 2020-21 due to pendency of the legal proceedings.

7. In anticipation of settlement of the cost incurred by D Ltd. on Airport Line, the Corporation decided to go for third party evaluation of assets installed by D Ltd. on Airport Line and awarded the work to I Ltd. (A Govt. of India Undertaking). I Ltd., in its report dated 30.12.2014, evaluated each class of assets of Airport Line at a total valuation of Rs. 2,273.67 crore, as detailed below:

S.No.	Section	Total Cost (Rs. in Crores)
1	Electrical & Electro-Mechanical Engineering Works	1,393.99
2	Signaling & Telecommunication works	331.92
3	Civil Engineering Works	208.17
4	Track Works	199.72
5	Sub Total (1 to 4):	2,133.80
6	Design & Drawing Charges @ 1%	21.34
7	TOTAL (5+6):	2,155.14
8	PMC Charges @ 4%	86.21
9	Overheads @ 1%	21.55
10	Insurance & BG Charges @0.5%	10.78
	Grand Total (7 to 10):	2,273.67

8. On 11.05.2017, the Arbitral Tribunal, in its Award, concluded that the termination notice issued by D Ltd. on 08.10.2012 was valid and awarded a total amount of Rs. 2,992.49 crore along with further interest, in favour of D Ltd., as detailed below:

Sr. No.	Claim head	Awarded Amount (Rs. in Crore)
1.	Termination Payment*	2,782.33

2.	Expenses incurred in running the line from 07.01.2013 to 30.06.2013 as well as net debt service during this period.	147.52
3.	Bank Guarantee invoked by the Corporation as well as charges paid by D Ltd. to the bank	62.07
4.	Security deposits paid by D Ltd. to various agencies for Project operations	0.57
5.	Total (1 to 4)	2,992.49
6.	Relief granted in favor of the Corporation, in respect of Concession fee payable by D Ltd. up to 07.01.2013	46.94

*Details of Termination Payment:

In accordance with Article 29.5.2 of the Concession Agreement, Termination Payment consists of two components, viz., (a) Debt Due (consisting of Rupee Term Loan and ECB) and (b) 130% of the Adjusted Equity.

Accordingly, the Arbitral Tribunal has calculated the Termination Payment of Rs. 2,782.33 crore as follows:

<i>S.No.</i>	<i>Particulars</i>	<i>Amount (Rs. in crore)</i>
(a)	130% Adjusted Equity	983.02
(b)	Debt Due	
	Rupee Term Loan	1,260.73
	External Commercial Borrowings	538.58
	Total	2,782.33

9. Against the award of Arbitral Tribunal, the Corporation filed a petition in the Delhi High Court under section 34 of the Arbitration and Conciliation Act, 1996 for setting aside the award of the Arbitral Tribunal dated 11.05.2017, which was dismissed by the learned Single Judge of the High Court by a judgement dated 06.03.2018.

10. The Corporation challenged the judgment dated 06.03.2018 of the Hon'ble Single Judge of Delhi High Court by way of an appeal before the Division Bench of Hon'ble Delhi High Court under section 37 of the Arbitration and Conciliation Act, 1996. The Division Bench, vide judgment dated 15.01.2019, reversed the judgement of the learned Single Judge and allowed the appeal filed by the Corporation.

11. D Ltd. preferred a Special Leave Petition (SLP) before the Hon'ble Supreme Court of India, against the judgment dated 15.01.2019 of Hon'ble Division Bench of Delhi High Court. The Hon'ble Supreme Court vide its judgment dated 09.09.2021, allowed the appeal filed by D Ltd. and upheld the Award of Arbitral Tribunal and set aside the judgment of the Hon'ble Division Bench of the Delhi High Court. The Corporation filed a Review Petition with Hon'ble Supreme Court on 07.10.2021, which was also dismissed by the Hon'ble Supreme Court vide Order dated 23.11.2021, stating that no case for review is made out.

12. The querist has stated that the accounting treatment in the financial statements of the Corporation for the F.Y. ending on 31.03.2022 is as follows:

The Termination Payment of Rs. 2,782.33 crore (item no. 1 of paragraph 8) has been capitalised in the books of the Corporation w.e.f. 07.01.2013 (i.e. the date of termination of concession agreement), towards the cost of assets installed by D Ltd. on Airport Line. Since the asset-wise break-up of Rs. 2,782.33 crore is not given in the Arbitration Award, therefore, in accordance with paragraph 2(b) of Ind AS 103 'Business Combinations', the cost of Rs. 2,782.33 crore has been allocated, on pro-rata basis, to the individual identifiable assets, on the basis of their relative values as evaluated in I Ltd.'s report referred to in paragraph 7 above.

13. The querist has informed that the statutory auditors of the Corporation qualified their Audit Report stating the following:

"... The Company has neither determined nor recognized any liability against D Ltd.'s claim of Rs. 7,045.41 crore (net), of which Rs. 6,760.011 crore pertains to the period up to 31.03.2021 and rest Rs. 285.401 crore to the period after Balance Sheet date.

Consequential impact of above, if any, on Company's Assets, Liabilities, Contingent Liabilities, Contingent Assets and/or Revenue, remains indeterminate."

14. Management Reply to audit qualification is reproduced below:

"The complete facts and disclosure in the matter of dispute between D Ltd. and the Company have been disclosed in Note No. 29.13. As regards events occurred after the reporting period, the same has also been disclosed in Note No. 29.13.16 which is reproduced below:

Events after the reporting period

The Hon'ble Supreme Court vide its judgment dated 09.09.2021, upheld the Award of Arbitral Tribunal and set aside the judgment of the Division Bench of the Delhi High Court. The Special Leave Petition filed by the Corporation is also dismissed by the Hon'ble Supreme Court.

On 10.09.2021, D Ltd. has filed an Execution Petition with Delhi High Court for an amount of Rs. 7,045.41 crore including interest up to 10.09.2021, for which, the next date of hearing is 06.12.2021.

Meanwhile, the Board of the Corporation in its meeting held on 24.09.2021, decided to go for review petition and also advised the management to avail/exercise all the available legal avenues to fight the case and protect the interest of the Company. Accordingly, the Corporation has filed a 'Review Petition' with Hon'ble Supreme Court on 07.10.2021 along with request for stay of its order.

The Review Petition filed by the Corporation was heard by the bench in circulation and the same was dismissed by the Order dated 23.11.2021, stating no case for review is made out. The Corporation intends to explore further legal course of action in consultation with Learned Solicitor General of India and other Senior Counsels, who appeared in the matter.

Pending legal course of action and consequent final settlement/ reconciliation with D Ltd., the Corporation has not recognised any assets/liabilities and revenue against the claim of D Ltd. as on 31.03.2021.

During the current F.Y. 2021-22, necessary accounting entries relating to assets / liabilities and revenue on this account will be passed in the Books of Account on the basis of the outcomes of pending legal course of action and settlement/ reconciliation of other legal issues, however, the complete disclosure as contingent liability has been given for the claim amount of D Ltd. in Note No. 29.1.1 a).”

15. During supplementary audit of financial statements of the Company for the F.Y. 2020-21, the office of Comptroller & Auditor General of India (C&AG) issued a Provisional Comment, which is reproduced below:

“Provisions (current) do not include Rs. 2992.49 crore being the principal amount of termination payment to be made to D Ltd. in accordance with Hon’ble Supreme Court’s judgment awarded on 23.11.2021. Since the amount was not under dispute, provision in this respect was required besides disclosure on the undetermined amount of interest thereon as on the date of preparation of Financial Statements as per Ind AS 10, ‘Events after the Reporting Period’ read with Ind AS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’.

Paragraph 9(a) of Ind AS 10 states that the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period is an adjusting event after the reporting period that requires an entity to:

- (i) adjust any previously recognised provision related to the court case in accordance with Ind AS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’ or,
- (ii) recognise a new provision.

Accordingly, this being an adjusting entry was required to be provided for.

Non-provisioning in this respect has resulted in understatement of ‘Current Liabilities – Provisions: Current’ as well as Loss for the year by Rs. 2992.49 crore.”

16. Management Reply to the Provisional Comment is reproduced below:

“Before judgement awarded on 23.11.2021 by Hon’ble Supreme Court, D Ltd. has filed an Execution Petition with Hon’ble Delhi High Court on 10.09.2021 for an amount of Rs.7,045.41 crore, for which the hearings are still going on. Therefore, it is not entirely correct that the capital cost for creation of various class of assets of Airport Line, out of termination payment, is only Rs. 2,992.49 crore.

Further, whatever amount is to be capitalised, will not affect loss of the Company rather it will create assets of Airport Line in the Company.

As regards paragraph 9(a) of Ind AS 10 pointed out by Audit, it is submitted that the said paragraph is applicable where settlement of a court case is made, whereas, in our case, as explained above, the hearings of Execution Petition filed by D Ltd. in Delhi High Court are still going on, hence, *the case cannot be treated as settled.*

As regards creation of provision in accordance with Ind AS 37, it is clear that *since the amount to be capitalised as cost of Airport Line is unascertainable as on date, the reliable estimate by the Management of the Company is not feasible.* Further, for reliable estimate of the obligation, paragraph 26 of Ind AS 37 is relevant, which is reproduced below:

“Reliable estimate of the obligation

26 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability ...”

Accordingly, the complete liability has been disclosed as contingent liability in Note No. 29.1.1 of the annual accounts for the F.Y. 2020-21. Also, complete facts have been disclosed in Financial Statement for the F.Y. 2020-21 vide item no. 29.13.16 under the head “Events after the reporting period” in which it is clearly mentioned that:

“The Corporation intends to explore further legal course of action in consultation with Learned Solicitor General of India and other Senior Counsels, who appeared in the matter.

Pending legal course of action and consequent final settlement/reconciliation with D Ltd., the Corporation has not recognised any assets/liabilities and revenue against the claim of D Ltd. as on 31.03.2021.”

Further, the process of take over and recognition of various class of assets of Airport Line is a complex and lengthy process wherein, amongst other issues, following issues may require to be settled before taking any impact in the books of account: -

- (i) Total amount to be capitalised as cost of Airport Line is unascertainable.
- (ii) The amount of Rs. 2992.49 crore pointed out by Audit is based on the following calculations of the Arbitrator:

S.No.	Particulars	Amount (Rs. in crore)
A	Counter Claim (a)	
	130% Adjusted Equity	983.02
	Rupee Term Loan	1,260.73
	External Commercial Borrowings	538.58
	Sub-Total (A)Termination payments	2,782.33
B	Counter Claim (b)	
	Net operating cost for operating in line from 07.01.2013 to 30.06.2013	39.76
	Net debt servicing	107.76
	Sub-Total (B)	147.52
C	Counter Claim (d)	

	Encashment of PBG of D Ltd.	62.07
	Sub-Total (C)	62.07
D	Counter Claim (e)	
	Security Deposits of D Ltd. with some agencies	0.57
	Sub-Total (D)	0.57
E	GRAND TOTAL (A+B+C+D)	2,992.49

Hence, in calculation of amount of Rs. 2992.49 crore, no class of assets has been defined by the Arbitrator. In absence of such details, the amount to be capitalised in respective classes of assets might require valuation of individual class of assets by Registered Valuer.

- (iii) Date of capitalisation of assets, which will affect the depreciation to be charged on these assets.
- (iv) Treatment of interest payable to D Ltd. from date of termination for different periods, i.e. date of arbitration award, from date of Arbitration Award to date of Supreme Court Judgments.
- (v) Other legal requirements which may arise for transfer of title of assets in the name of the Corporation.

Since the amount of assets to be recognised in the books of account cannot be determined at this stage, hence, in absence of any such provisions in Ind AS, the Company is unable to recognise various classes of assets corresponding to the liability of Rs. 2992.49 crore, as suggested by Audit.

Due to above complexities in creation of various class of assets of the Airport Line, it is assured that the whole issue relating to accounting of Airport Line will be referred to the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) for its opinion, and necessary accounting will be done on receipt of opinion from EAC of the ICAI.

In view of above, Audit is requested to drop the Provisional Comment.”

17. The Company has proposed the following accounting treatment and disclosures in the financial statements for the financial year ending 31.03.2022:

On the Termination Payment of Rs. 2,782.33 crore, interest payable to D Ltd. for the period up to 31.03.2022, along with depreciation for the period 07.01.2013 to 31.03.2022 on the assets capitalised in accordance with paragraph 12 above, is charged to the Statement of Profit and Loss under the head ‘Exceptional Items’ for the current financial year ended 31.03.2022.

B. Query

18. In view of the above, opinion of the Expert Advisory Committee is sought on the following queries:

- (i) Whether the accounting treatment given by the Company in paragraph 17 is correct.
- (ii) If not, what is the correct accounting treatment?

C. Points considered by the Committee

19. The Committee notes that the basic issue raised by the querist relates to whether the presentation (and not recognition and measurement) of interest payable to D Ltd. for the period up to 31.03.2022 and depreciation for the period 07.01.2013 to 31.03.2022 on the assets capitalised under the head 'exceptional items' in the Statement of Profit and Loss for the financial year ending on 31.3.2022 is appropriate. 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, recognition and measurement of interest, accounting treatment followed by the Company for the expenditure incurred on Airport Line including determination of amount to be capitalised as cost of Airport Line and timing of capitalisation of various assets under the Airport Line project, accounting treatment in earlier years prior to F.Y. 2021-22, applicability of Appendix D to Ind AS 115, 'Service Concession Arrangements', appropriateness of third party evaluation of assets and allocation of Termination Payment on pro-rata basis to individual identifiable assets, recognition of provision or disclosure of contingent liability of amount payable to D Ltd., recognition and measurement of depreciation, application of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', application of Ind AS 10, 'Events after the Reporting Period', impairment of assets as per requirements of Ind AS 36, 'Impairment of Assets', etc. Further, the Committee has expressed its opinion purely from the accounting perspective and not from the perspective of legal interpretation of Concession Agreement, various awards/judgements of Arbitral Tribunal/High Court, as referred to by the querist. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

20. The Committee notes from the Facts of the Case (paragraph 12 above) that the Corporation has capitalised the Termination Payment w.e.f. 07.01.2013 (i.e. the date of termination of concession agreement), as the cost of assets installed by D Ltd. on Airport Line in its financial statements for F.Y. ending on 31.3.2022.

21. With regard to the presentation of interest payable to D Ltd. for the period up to 31.03.2022 and depreciation for the period 07.01.2013 to 31.03.2022 under the head 'exceptional items', the Committee notes that Part II of Division II of Schedule III to the Companies Act, 2013 (hereinafter referred to as the 'Ind AS Schedule III'), prescribes the format of Statement of Profit and Loss applicable for companies adopting Ind ASs, which requires presentation of 'Exceptional Items' as a separate line item in the Statement of Profit and Loss. Further, Note 7 of the 'General Instructions for Preparation of Statement of Profit and Loss' applicable for companies adopting Ind ASs requires that a Company should disclose by way of notes, additional information regarding aggregate expenditure and income on some items. One of the items to be disclosed in this regard is 'details of items of exceptional nature'. However, the term 'exceptional item' is neither defined in 'Ind AS Schedule III', nor it is used in Ind ASs. The Committee further notes that the Format of the Statement of Profit and Loss prescribed in Schedule III to the Companies Act also requires presentation of 'Finance costs' and 'Depreciation and Amortisation Expenses' as separate line items under 'Expenses'. Further, Note 7 of the 'General Instructions for Preparation of

Statement of Profit and Loss' requires inter alia, to disclose by way of notes, additional information regarding details of aggregate expenditure in respect of these two items. Thus, considering the nature of items, viz., finance costs and depreciation and amortisation, Schedule III specifies a specific presentation and disclosure requirements for these items.

22. In this regard, the Committee also notes the following paragraphs of Indian Accounting Standard (Ind AS) 1, 'Presentation of Financial Statements':

“31 Some Ind ASs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an Ind AS if the information resulting from that disclosure is not material except when required by law. This is the case even if the Ind AS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.”

“82 In addition to items required by other Ind ASs, the profit or loss section of the statement of profit and loss shall include line items that present the following amounts for the period:

(a) revenue, presenting separately interest revenue calculated using the effective interest method;

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(b) finance costs;

...”

“85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.”

“86 Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of profit and loss, and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.”

“Information to be presented in the statement of profit and loss or in the notes

- 97 When items of income or expense are material, an entity shall disclose their nature and amount separately.**
- 98 Circumstances that would give rise to the separate disclosure of items of income and expense include:
- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
 - (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
 - (c) disposals of items of property, plant and equipment;
 - (d) disposals of investments;
 - (e) discontinued operations;
 - (f) litigation settlements; and
 - (g) other reversals of provisions.
- 99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.**
- 100 Entities are encouraged to present the analysis in paragraph 99 in the statement of profit and loss.
- 101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in the form as described in paragraph 102.
- 102 In the analysis based on the ‘nature of expense’ method, an entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. ...”

Further, the Committee notes that the concept of ‘materiality’ has been discussed in paragraph 7 of Ind AS 1 as below:

“Material:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other

information, is material in the context of its financial statements taken as a whole.

...”

23. From the above, the Committee notes that material items need to be presented as line items and/or disclosed in financial statements, which includes the notes. As per Ind AS 1, materiality depends on the magnitude and/or nature of information and an information is material if omitting or misstating or obscuring it could be expected to influence the decisions of primary users of financial statements. Further, as per the requirements of paragraphs 86 and 101 of Ind AS 1, since effects of events and transactions differ in frequency, the components of financial performance should be disclosed and additional line items/headings should be presented when such presentation is relevant to understanding of the entity’s financial performance having regard to factors including materiality and the nature of the items of income and expense.

Therefore, drawing an analogy from the above-reproduced requirements of Ind AS 1, the Committee is of the view that exceptional items are those items which meet the test of ‘materiality’ as well as the test of ‘frequency of occurrence or incidence’; and the meaning of the term ‘material’ should be construed as per paragraph 7 of Ind AS 1, as reproduced above. The Committee is of the view that ‘exceptional items’ could be of the nature of items listed in paragraph 98 of Ind AS 1 reproduced above, if such items are material and are infrequent in occurrence. Further, the Committee notes from the requirements of Schedule III and above-reproduced paragraphs of Ind AS that they require items to be presented and classified as per their nature and also require specific items, such as, ‘finance costs’ and ‘depreciation and amortisation’ to be disclosed in a specific manner.

In the above context, the Committee notes that the ‘interest payable’ (although arising on non-settlement of termination payment in the extant case) is of the nature of a ‘finance cost’, which is a common expense for any kind of business. In other words, the nature of interest payable does not change due to termination of contract and therefore, its nature cannot be considered as ‘exceptional’. Thus, considering the requirements of Schedule III and Ind AS, the Committee is of the view that interest payable in the extant case should be presented as a part of ‘Finance costs’ and not as an exceptional item in the Statement of Profit and Loss for the F.Y. ending on 31.3.2022.

Similarly, without examining the appropriate date from which the assets should have been capitalised and depreciation should have been charged thereon; and whether Ind AS 8 is applicable in respect of depreciation as a prior period error, the Committee notes that the depreciation on assets has arisen in the normal course of business though it is accumulated for earlier years. Therefore, its nature cannot be considered as ‘exceptional’. Thus, considering the requirements of Schedule III and Ind AS, the Committee is of the view that depreciation in the extant case should not be considered as an exceptional item in the Statement of Profit and Loss for the F.Y. ending on 31.3.2022.

However, depending on the size/magnitude or frequency of these items, these may be presented by disaggregating, headings and subtotals under the respective heads viz. ‘finance cost’ and ‘depreciation’ in the Statement of Profit and Loss when such presentation is relevant to an understanding of the entity’s financial performance, alongwith appropriate disclosure in the notes to financial statements, as per the requirements of Ind AS 1, as reproduced above.

D. Opinion

24. In view of the above and subject to paragraph 19 above, the Committee is of the following opinion on issues raised in paragraph 18 above:

- (i) and (ii) The presentation of interest payable to D Ltd. for the period up to 31.03.2022 and depreciation for the period 07.01.2013 to 31.03.2022 on the assets capitalised under the head 'exceptional items' in the Statement of Profit and Loss for the F.Y. ending on 31.3.2022 is not appropriate, as discussed in paragraph 23 above. However, depending on the size/magnitude or frequency of these items, these may be presented by disaggregating, headings and subtotals under the respective heads viz. 'finance cost' and 'depreciation' in the Statement of Profit and Loss when such presentation is relevant to an understanding of the entity's financial performance, alongwith appropriate disclosure in the notes to the financial statements, as per requirements of Ind AS 1, as discussed in paragraph 23 above.
