

Query No. 39

Subject: Timing of capitalisation of the project as Property, Plant and Equipment under AS framework.¹

A. Facts of the Case

1. A company (hereinafter referred to as ‘the Company’) is registered under section 8 of the Companies Act, 2013 as ‘Not-for-Profit’ organisation, wholly owned by the State Government with an authorised share capital of Rs. 5,00,000/- on 02-02-2017. The Company is a Special Purpose Vehicle formed for development of infrastructure at Tumakuru. The equity share capital of the Company consists of Rs. 5,00,000/- (50,000 shares of Rs. 10/- each). The shares of the Company are not listed in the stock exchange(s). The Company is a government company formed in association with the Ministry of Heavy Industries, Government of India (GoI) and Department of Commerce & Industries/ State Industrial Areas Development Board (SIADB), State Government.

2. The major source of income of the Company is grant (non-recurring/non-refundable/capital grant) of Rs. 125 crore from the Government of India and Rs. 125 crore from the State Government for development of infrastructure works (roads, electricity works, Sewage Treatment Plant (STP), Solid Waste Management (SWM), etc.).

The Company is having Property, Plant and Equipment (PPE) to the tune of Rs. 21,88,202 thousands as on 31/03/2022. The assets are being procured by way of:

- 1) Property, Plant and Equipment
- 2) Capital Work in Progress

The Company recorded the expenditure incurred for development of infrastructure works in Capital Work in Progress since the works were in progress till the end of financial year 2021-22.

3. The Company awarded the works of development of infrastructure to turnkey contractors as detailed below:

- 1) M/s R Ltd. – Developmental works for formation of roads, construction of Reinforced Cement Concrete (RCC) box drains, and culverts including water supply and Under-ground Drainage (UGD) works for Rs. 149.65 crore.
- 2) M/s K Ltd. –
 - i) Establishment of substation for Rs. 34.68 crore,
 - ii) Electrification work for Rs. 22.86 crore,
 - iii) Providing LED street lights to the streets of the Company (Rs. 2.92 crore) and
 - iv) Construction of 66KV S/C line on D/C Towers by shifting of existing S/C line on S/C towers for Rs. 4.66 crore.

Sub-stations, electrification works and LED street lights are the major constituents of the electrical works (PPE) of the Company. Work of construction of these sub-stations and lines is being carried out by the Company through turnkey contracts. The installation of equipments at sub-station premises and drawing of transmission lines from one station to other are being executed by turnkey contractors under the guidance and supervision of the Company’s

¹ Opinion finalised by the Committee on 6.12.2023.

engineers. The materials required for these works have been inspected at the works of the vendors, and then dispatch instructions are issued upon confirmation of these materials meeting the technical requirements of the Company. On receipt of the materials at site, they will be verified by the engineer-in-charge of the works for physical damages etc. As per the terms and conditions of the agreement, State Power Transmission Corporation Limited (SPTCL) and City Electricity Supply Company (CESCOM) inspected the premises and ensured that all electrical installations in the project layout are installed and maintained as per the relevant safety codes and standards. The engineer in charge has to communicate about the completion of the works, commissioning and handing over to the concerned department for use. But, the engineering department delayed to communicate this to the accounts branch in specific time.

4. The details of works completed and documents submitted to the accounts department by the Chief Technical Officer of the Company at the time of submission of Running Account (RA) bills are as below:

Sr. No.	Particulars of Work	Total expenditure (Rs. in Thousands)	Date of completion (completion report)	Date of submission of Final RA bill & completion report	Date of commissioning submitted at the time of submission of final RA bill
1	Establishment of sub-station	3468.89	06-11-2020	20-11-2020	04-11-2020
2	Electrical infrastructure	2285.82	23-11-2020	25-03-2022	03-11-2020
3	Providing LED streetlights to the roads of T Park	291.34	17-03-2022	29-03-2022	Not submitted
	Total	6046.05			

5. The major turnkey work in the project layout is developmental works for formation of roads, construction of RCC box drains, and culverts including water supply and UGD works which was completed on 28-02-2022. The intimation about the completion was given to the accounts department only at the time of submission of final bill on 02-05-2022. Keeping in mind the project as a whole, the Company is of the view that till all infrastructure works is completed, the expenditure for the works will be shown in capital work in progress and thereafter, the capital work in progress will be adjusted/set off with the capital grant received from the State Government and Government of India as per the Accounting Standard (AS) 12 'Accounting for Government Grants'. Hence, in the financial year 2021-22, the above electrical works are shown in capital work in progress.

6. During the Comptroller and Auditor General of India (C&AG) audit, the C&AG made the following observation regarding this and the reply given by the Company is as below:

C&AG query	Company reply
<p>Note No. 03: Reserves & Surplus: Rs. 24,89,547 thousands.</p> <p>Note No. 06: Non-current assets: Capital work in progress: Rs.</p>	<p>The Main objective of the Company as per the Memorandum of Association is:</p>

21,86,083 thousands.

The above includes Rs. 6046.05 thousands related to establishment of sub-station (Rs. 3468.89 thousand), electrification work (Rs. 2285.82 thousand) and providing LED street lights to the roads of the T Park (Rs. 282.64 thousands) which has already completed, commissioned and handed over to SPTCL and CESCO respectively as detailed below:

Sr. No.	Particulars of Work	Total expenditure	Date of commissioning	Date of handing over to user Department
1	Construction of Sub station	3468.89	04.11.2020	31.05.2021
2	Construction of Electrical infrastructure	2285.82	04.11.2020	31.05.2021
3	Providing LED streetlights to the roads of TMTD	291.34	04.11.2020	--
	Total	6046.05		

Thus, inspite of completion and commissioning and handing over of assets to concerned user department by the Company for maintenance, continuing the same under CWIP has resulted in overstatement of Reserves and Surplus and Capital Work in Progress amounting to Rs. 6046.05 thousands.

“To promote plan, design, establish, develop, construct, maintain, operate and finance Integrated Machine Tool Park (IMTP) at T District for assistance to technology development / acquisition and services infrastructure under the scheme of “Enhancement of Competitiveness in Indian Capital Goods Sector” (ECICGS) with a view to encourage and support the development of Machine Tool Industry in the State. For the purpose, to accept grants, subsidies, support, contributions and the like either from the any Government or other persons whether incorporated or not, either in cash or in kind ...”.

Paragraph 9 of Accounting Standard (AS) 10 ‘Property, Plant and Equipment’ (PPE) is reproduced below, which states that the unit of measurement for recognition of PPE requires the judgement to specific circumstances of an enterprise (in case of the Company, ‘the Project as a whole’): -

“9. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to specific circumstances of an enterprise. An example of a ‘unit of measure’ can be a ‘project’ of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Similarly, it may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material.”

The cost of an asset / PPE is capitalised when the asset / PPE is ready to use. The Company is carrying out the development of infrastructure activities at T District for ‘the Project as a whole’ which is the asset / PPE to the Company. As on 31.03.2022, the Project is under completion. Following works are pending

	as on 31.03.2022:	
	Sl. No.	Unit
	1.	Formation of Roads
	2.	Construction of Side Drains, RCC storm water drains, RCC Box culvert, Utility ducts, Ducts across the roads
	3.	Water supply pipelines, UGD lines, GLSR, OHT, creation of water bodies, sinking of borewell
	4.	Planting of trees, marking of plots
	5.	Supply and erection of pump sets for borewell with accessories
	6.	Other infrastructure works (Twin quarters, truck parking area, Commissioning of pumping machine)
	7.	Shifting of existing S/C line on S/c towers to D/c line on D/c towers
	<p>Further, the Company must obtain Department of Heavy Industry (DHI) approval for completion of project as per the terms mentioned in Memorandum of Understanding (MoU).</p> <p>Upon completion of the project (expected to be before 31.03.2023), the Company will capitalise the cost of asset / PPE as 'the Project as a whole'. Hence recognition of Individual assets as on 31.03.2022 will not arise.</p> <p>In view of the above facts, the audit observation may kindly be dropped.</p>	

7. Based on the above reply, the C&AG issued the following preliminary comments to the statutory auditor; and the reply of the statutory auditor and the Company for the preliminary comments are as below:

Preliminary Comment by C&AG	Reply by the Company	Reply by the Statutory Auditor
Balance Sheet		

<p>(i) Note No. 03: Reserves & Surplus: Rs. 248.95 crore</p> <p>Note No. 06: Non-current assets: Capital work in progress: Rs. 218.60 crore</p> <p>The above includes Rs. 60.46 crore related to establishment of sub-station (Rs. 34.68 crore), electrification work (Rs. 22.86 crore) and providing LED street lights to the roads of the T Park (Rs. 2.92 crore) which has already completed, commissioned and handed over to SPTCL and CESCO on 31st May 2021. Continuance of the same under CWIP has resulted in overstatement of assets and</p>	<p>The main objective of the Company as per the Memorandum of Association is:</p> <p>“To promote plan, design, establish, develop, construct, maintain, operate and finance Integrated Machine Tool Park (IMTP) at T District for assistance to technology development/acquisition and services infrastructure under the scheme of “Enhancement of Competitiveness in Indian Capital Goods Sector” (ECICGS) with a view to encourage and support the development of Machine Tool Industry in the State. For the purpose, to accept grants, subsidies, support, contributions and the like either from the any Government or other persons whether incorporated or not, either in cash or in kind”.</p> <p>Paragraph 9 of Accounting Standard 10, ‘Property, Plant and Equipment’ (PPE) states that the unit of measurement for recognition of <i>PPE</i> requires the <i>judgement</i> to <i>specific circumstances</i> of an enterprise (in case of the Company, ‘<i>the Project as a whole</i>’). The paragraph 9 is reproduced below:</p> <p>“9. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to specific circumstances of an enterprise. An example of a ‘unit of measure’ can be a ‘project’ of construction of a manufacturing plant rather than</p>	<p>With reference to comments mentioned in 1(i), it may be noted that the cost of an asset / PPE is required to be capitalised when the asset / PPE is ready to use. As per our view, the Company is carrying out the development of infrastructure activities at T District on a turnkey basis or as ‘<i>the Project as a whole</i>’ which is the asset / PPE to the Company.</p> <p>The total project is for developing the Park, which is on a turnkey basis. Completion of just some part of the work like power station does not mean anything unless the entire project / Park is ready for use.</p> <p>We also draw your kind attention to the following:</p> <ol style="list-style-type: none"> 1. Paragraph 17 of Accounting Standard 10, ‘Property, Plant and Equipment’, states that the cost of a fixed asset should consist of 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. 2. Also, paragraph 18 of Accounting Standard 10 provides examples of directly attributable costs which includes cost of employee benefits, professional fees, site preparation charges, delivery and handling cost, installation, and assembly costs. 3. We are of the view that the Company has considered the development of industrial infrastructure activities at T District, as a ‘single project’ or ‘the project as whole’. Hence, all costs incurred till the project is completed will be the cost directly attributable to the project of the Company and it is eligible to be treated as Capital work in progress (CWIP). 4. As per the above said accounting policy, the Company has transferred all the costs directly attributable to
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consequent overstatement of reserves to the extent of Rs. 60.46 crore.

individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Similarly, it may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material.”

The cost of an asset/PPE is capitalised when the asset/PPE is ready to use. The Company is carrying out the development of infrastructure activities at T District for ‘*the Project as a whole*’ which is Asset/PPE to the Company. As on 31.03.2022, the *Project is under completion*. Following works are pending as on 31.03.2022:

Sl. No.	Name of the work	Unit
1.	Formation of Roads	350 m
2.	Construction of Side Drains, RCC storm water drains, RCC Box culvert, Utility ducts, Ducts across the roads	2*350 m
3.	Water supply pipelines, UGD lines, GLSR, overhead water tank (OHT), creation of water bodies, sinking of borewell	700 m
4.	Planting of trees, marking of plots	66.50 acres

the project to CWIP which is in line with the accounting policy of the Company.

5. The paragraph 9 of Accounting Standard 10 ‘Property, Plant and Equipment’ (PPE) states that the unit of measurement for recognition of PPE requires the judgement to specific circumstances of an enterprise (in case of the Company, ‘single project’ or ‘the Project as a whole’):

“9. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to specific circumstances of an enterprise. An example of a ‘unit of measure’ can be a ‘project’ of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Similarly, it may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material.”

It may be relevant to note that as per information provided by the Company, the following works are pending as on 31.03.2022:

Sl. No.	Name of the work	Unit
1.	Formation of Roads	350 m

5.	Supply and erection of pump sets for borewell with accessories	10 Nos.	2.	Construction of Side Drains, RCC storm water drains, RCC Box culvert, Utility ducts, Ducts across the roads	2*350 m
6.	Other infrastructure works (Twin quarters, truck parking area, Commissioning of pumping machine)	Balance works	3.	Water supply pipe lines, UGD lines, GLSR, OHT, creation of water bodies, sinking of borewell	700 m
7.	Shifting of S/C line to D/C Towers	90 m	4.	Planting of trees, marking of plots	66.50 acres
<p>Further, the Company must obtain Ministry of Heavy Industries (MHI), Government of India (GoI) approval for completion of project as per the terms mentioned in Memorandum of Understanding (MoU).</p> <p>Upon completion of the Project, the Company will capitalise the cost of asset / PPE as ‘the Project as a whole’; hence, recognition of Individual assets as on 31.03.2022 is not appropriate and the consideration of development of industrial infrastructure at T District as a ‘single project’ or ‘the project as a whole’ is in line with the Accounting Standard 10. The Company’s treatment of all costs as directly attributable to the project and treating the same as capital work in progress till the project is completed is appropriate. Therefore, there is no overstatement of assets and consequent overstatement of reserves to the extent of Rs. 60.46 crore in CWIP.</p> <p>Hence, the preliminary comments may be dropped.</p>			5.	Supply and erection of pumpsets for borewell with accessories	10 Nos.
			6.	Other infrastructure works (Twin quarters, truck parking area, Commissioning of pumping machine)	Balance works
			7.	Shifting of S/C line to D/C Towers	90 m
<p>Further, we understand that the Company is required to obtain DHI approval for completion of project as per the terms mentioned in Memorandum of Understanding (MoU).</p> <p>Upon completion of the Project, the Company needs to capitalise the cost of Asset / PPE as ‘the Project as a whole’; hence, recognition of individual assets as on 31.03.2022 is not appropriate and no way distorts the true and fair picture of the financial statements.</p> <p>Therefore, the consideration of development of industrial infrastructure at T district as a ‘single project’ or ‘the project as a whole’ is in line with the Accounting Standard 10.</p> <p>In our considered view, the Company’s treatment of all costs as directly attributable to the project and treating the same as capital work in progress till the project is completed is appropriate and no way distorts the true and fair picture of the financial statements.</p>			<p>Further, we understand that the Company is required to obtain DHI approval for completion of project as per the terms mentioned in Memorandum of Understanding (MoU).</p> <p>Upon completion of the Project, the Company needs to capitalise the cost of Asset / PPE as ‘the Project as a whole’; hence, recognition of individual assets as on 31.03.2022 is not appropriate and no way distorts the true and fair picture of the financial statements.</p> <p>Therefore, the consideration of development of industrial infrastructure at T district as a ‘single project’ or ‘the project as a whole’ is in line with the Accounting Standard 10.</p> <p>In our considered view, the Company’s treatment of all costs as directly attributable to the project and treating the same as capital work in progress till the project is completed is appropriate and no way distorts the true and fair picture of the financial statements.</p>		

(Emphasis supplied by the querist.)

B. Query

8. In view of the above, the querist has sought the opinion of the Expert Advisory Committee (EAC) as to whether C&AG's observation and its suggestion to accounting treatment is right or the Company's accounting treatment is right.

C. Points considered by the Committee

9. The Committee notes that the issues raised by the querist relate to timing of capitalisation of the project as Property, Plant and Equipment. The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, whether any expenditure incurred during the construction of the Project meets the condition of capitalisation, including measurement of the cost of the Project as per the requirements of AS 10, accounting for government grants, etc. At the outset, the Committee notes that the Company follows Accounting Standards (AS) for the preparation of its financial statements and has therefore, examined the issue considering the requirements of Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2021. Further, the Opinion hereinafter is purely from accounting perspective and not from legal perspective, such as, legal interpretation of Memorandum of Association (MoA), Articles of Association (AoA), Memorandum of Understanding (MoU) etc.

10. With regard to the issue raised, the Committee notes the following paragraphs of AS 10, 'Property, Plant and Equipment':

"9. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to specific circumstances of an enterprise. An example of a 'unit of measure' can be a 'project' of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Similarly, it may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material."

"17. 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, removing the item and restoring the site on which it is located, referred to as 'decommissioning, restoration and similar liabilities', the obligation for which an enterprise 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."

“21. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
- (b) initial operating losses, such as those incurred while demand for the output of an item builds up; and
- (c) costs of relocating or reorganising part or all of the operations of an enterprise.”

“23. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. AS 16, *Borrowing Costs*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.”

The Committee notes from the above that recognition of costs in the carrying amount of an item of property, plant and equipment (PPE) (including self-constructed asset) should cease at the time when an item is *in the location and condition necessary for it to be capable of operating* in the manner intended by management. Thus, from such point in time, the item under construction should be transferred from capital work in progress to the gross block of PPE. The Committee is of the view that the point in time when an asset is *in the location and condition necessary for it to be capable of operating* in the manner intended by management is a question of fact which should be determined in the specific facts and circumstances on the basis of various factors, such as, technological evaluation of the readiness of the asset on completion of test runs to ensure that the asset is functioning properly from the perspective of its technical and physical performance, various substantive pre-requisite approvals from competent authorities, etc. The Committee also notes that paragraph 9 of AS 10 states that judgement is required in applying the recognition criteria to its specific circumstances in identifying a unit of measure as discussed below.

11. With regard to the issue of part of the project being complete, while the project as a whole being incomplete, and therefore to be considered as a unit of measure for the purpose of capitalisation of expenditures, the Committee notes paragraphs 21 and 22 of Accounting Standard (AS) 16, ‘Borrowing Costs’, which although address the issue from the point of view of the borrowing costs, however, the Committee is of the view that the principle enunciated in these paragraphs can be applied to capitalisation of other expenditures also. Paragraphs 21 and 22 of AS 16 are reproduced below:

“21. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other

parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

22. A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues for the other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.”

From the above, the Committee is of the view that in case of a project having several components/parts, those components /parts of the PPE/project which are capable of being usable while the construction continues for the other components/parts and can be operated independently of the remaining components/parts, should be considered as ‘units of measure’ for the purpose of capitalisation of expenditures. Accordingly, these component(s) or part(s) should be assessed individually as per the above-mentioned requirements of AS 10 as to whether these meet the requirement to be in the location and condition necessary for it/them to be capable of operating in the manner intended by management and therefore, should be capitalised as PPE.

12. In this context, the Committee notes from the Facts of the Case that the Project in the extant case is for developing an integrated Park on a turnkey basis with all the infrastructure facilities, such as roads, electricity, waste management, sewage treatment, etc. Thus, the project has many components/parts such as formation of roads, RCC box drains, water supply works, sub-stations, electrification work, LED street lights etc. which are being executed/performed simultaneously by one or more contractors. The Committee is of the view that in the extant case, it is possible that some portion/stretch of the Park with all the facilities such as roads and street lights etc. is complete and is ready for the intended use while construction of remaining portion of the project is being undertaken. Further, it is also possible that one component of the project, say construction of roads is complete and can be used independently of the other components of the project. In such cases, the project to that extent may be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management, as per the requirements of AS 10 and accordingly, should be capitalised as an item of PPE, only to such extent, even prior to completion of the entire project. However, if various parts/components cannot be used independently and therefore, cannot be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management till the entire project is completed, such parts/components of the project cannot be capitalised as an item of PPE, since in such a case the project as whole would be considered as a unit of measure which is also so recognised in paragraph 9 of AS 10 reproduced above. In this context, the Committee also wishes to point out that once the relevant asset(s) are capitalised, depreciation should be provided on such capitalised asset(s) as per the provisions of AS 10. Further, the Company should also comply with the requirements of AS 28, ‘Impairment of Assets’, even when the project/asset is still under construction.

13. The Committee also notes from the Facts of the Case that it has been stated that the Company must obtain approval from the Department of Heavy Industry (DHI) for completion of project or components/parts thereof as per the terms mentioned in Memorandum of Understanding (MoU). Similarly, there could be other approvals or clearances that may need to be taken prior to the completion of the construction of the project or components/parts

thereof. In this regard, the Committee is of the view that the Company needs to determine that whether the approval to be sought is substantive (in a way that the component/part or project cannot be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management unless such approval is obtained) or the same is for administrative purposes, for example, for obtaining the related grants, etc. only. Therefore, in case such an approval is for administrative purposes only, then the component/part or project can be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by management, as per the requirements of AS 10. Further, the Committee wishes to point out that delays in communicating the commissioning or completion date to the accounts department, which is an internal administrative procedure, should not affect the timing of capitalisation of a component/part or project as PPE in the financial statements of the Company.

D. Opinion

14. On the basis of the above, the Committee is of the opinion that the point in time when a part/component or project (asset) can be considered to be in the location and condition necessary for it to be capable of operating in the manner intended by the management as per the requirements of AS 10 and, accordingly, when the capital work in progress pertaining to that asset should be transferred to gross block of PPE is a question of fact which should be determined in the specific facts and circumstances on the basis of various factors, such as, technological evaluation of the readiness of the asset on completion of test runs to ensure that the asset is functioning properly from the perspective of its technical and physical performance, various substantive pre-requisite approvals from competent authorities, etc., as discussed in paragraphs 10 to 13 above. Further, in case of a project having several components/parts, those components/parts of the PPE/project which are capable of being usable while the construction continues for the other components/parts and can be operated independently of the remaining components/parts, should be considered as ‘units of measure’ for the purpose of capitalisation of expenditures. Accordingly, these component(s) or part(s) should be assessed individually as per the requirements of AS 10 as to whether these meet the requirement to be in the location and condition necessary for it/them to be capable of operating in the manner intended by management and therefore, should be capitalised as PPE, as discussed in paragraph 11 and 12 above.
