

Query No. 18

Subject: *Accounting treatment of expenditure relating to cost of metro connectivity not owned by the Company, which is compulsorily required to be incurred for implementation and development of Exhibition-cum-Convention Centre (ECC) Project, under Ind AS framework.¹*

A. Facts of the Case

1. A company (hereinafter referred as ‘the Company’) is a public sector undertaking. The Company has been incorporated on 19th December, 2017 as a Special Purpose Vehicle (SPV) for the implementation and development of Exhibition-cum-Convention Centre (ECC), with 100% equity from the Government through Department for Promotion of Industry and Internal Trade (DPIIT).

2. Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry vide Order dated 22.11.2017 has given an approval of the Union Cabinet for development of Exhibition-cum-Convention Centre and allied infrastructure (‘the project’). The project components as approved includes the development of Airport Express line to ECC project site. The capital cost of the Project as stated in the approval includes payment of Rs. 942 crore to M/s D on the basis of the Detailed Project Report (DPR) prepared by M/s D for the extension of Airport Metro Express line to ECC project facility. Accordingly, an agreement was executed on 22nd June, 2018 between the Company and M/s D for the extension of Airport Express line as per DPR for the extension approved by DPIIT (a copy of agreement has been supplied separately by the querist for the perusal of the Committee).

3. The Company has incurred the expenditure of Rs. 931.23 crore by way of transfer of funds to M/s D till 31.03.2023 related to extension of Airport Express line; the financial year (F.Y.) wise breakup of Rs. 931.23 crore is as under:

- a. F.Y. 2017-18- Rs. 0.23 crore
- b. F.Y. 2018-19- Rs. 256.67 crore
- c. F.Y. 2019-20- Rs. 154.33 crore
- d. F.Y. 2020-21- Rs. 279.00 crore
- e. F.Y. 2021-22- Rs. 252.00 crore
- f. F.Y. 2022-23- Rs. -11.00 crore

4. Based on the utilisation certificate provided by M/s D, the utilised amount is shown in the financial statements of the Company for F.Y. 2022-23 under the head ‘Capital Work-in-Progress’. This practice has been continuously followed by the Company since inception. The accounting policy of the Company regarding Capital Work-in-Progress (CWIP) disclosed in the financial statements under Notes forming part of financial statements is as follows:

“2.3 Capital Work-In-Progress (CWIP)

Capital work-in-progress for use or for administrative purposes is carried at cost less accumulated impairment loss, if any, until construction and installation are complete and the asset is ready for its intended use.

¹ Opinion finalised by the Committee on 28.8.2024.

Construction expenditures, fees paid to consultants and all other costs less any income directly attributable to the Project during construction are shown as Capital Work in Progress till capitalisation. The same shall be allocated to the Assets in the ratio of Assets capitalised to the total Capital Work In Progress. Recovery from Contractors towards interest and others are adjusted against Construction Expenditure pending Capitalisation. Income pertaining to construction period such as interest income (other than from temporary deployment of funds received by way of equity and grant), tender/ bid processing fees, etc. is adjusted against the expenditure during construction.

Advances paid towards the acquisition of Property, Plant and Equipment outstanding at each Balance Sheet date is classified as Capital Advances under Other Non-Current Assets.

Interest During Construction (IDC) less any investment income on the temporary investment of those borrowings in respect of qualifying assets capitalised during the year, is allocated in the ratio which the value of capitalised assets bear to the qualifying CWIP as on the date of capitalisation.”

5. During the course of audit of annual accounts of the Company for the F.Y. 2022-23, the audit team of Comptroller and Auditor General of India (C&AG Auditor) observed as follows:

“The Company entered (22 June 2018) into an agreement with M/s D for extension of Airport Express line to Exhibition-cum-Convention Centre (ECC) for a length of 1.708 Km involving a cost of Rs. 942 crore to be paid in the form of non-refundable Grant. Till 31st March 2023, the Company had paid Rs. 931.23 crore to M/s D for the said extension of Airport Express line and booked under ‘Capital Work-in Progress’ (CWIP).

Clause 9 of the agreement stipulates that, “Ownership of all the assets (except land provided by the Company within ECC area) created in connection with the extension of the corridor into ECC will vest with M/s D”. Further, clause 11 stipulates that, “Revenue generated by carriage of commuter traffic as well as through advertisements, property development etc. within the premises of metro station area will accrue to M/s D”.

Paragraph 49(a) of the Framework for the Preparation and Presentation of Financial Statements issued by ICAI defines asset as; “An *asset* is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise”. Further, Expert Advisory Committee of the Institute of Chartered Accountants of India has held in earlier opinions² that, an entity that controls an asset can generally deal with the asset as it pleases. For example, an entity having control of an asset can exchange it for other assets, employ it to produce goods or services, charge a price for others to use it, and can also restrict the access of others to the benefits derived from the asset.

However, the Company does not have any such rights on the assets created by M/s D out of the grant received from the Company, since the above-mentioned clauses of the agreement forbid the same. Hence, booking of the amount paid to M/s D for extension

² Published in Volume XXX of Compendium of Opinions (Query No. I & 2) and Volume XXXII (Query No. 25).

of Airport Express line under CWIP is not justified.

Audit is of the view that amount paid to M/s D needs to have been shown as Advance till 31 March 2023 (as the metro line was not operational) and be charged off as expenditure to the Statement of Profit and Loss during F.Y. 2023-24 as the metro line has become operational.

Company needs to take necessary corrective action or may refer the matter for expert opinion from the Institute of Chartered Accountants of India as assured in its reply to Provisional comment.”

Management Reply

6. The management reply on the observation to C&AG is as follows:

“ICAI’s Expert Advisory Committee Opinion, in case of an earlier query (published as Query No. 19 of Compendium of Opinion, Volume XLI (Part I) on accounting treatment of expenditure incurred on the assets not owned by Company, has specifically mentioned that the Company is following Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2006 and accordingly, the opinion expressed hereinafter is from the perspective of the Accounting Standards, notified under the Companies (Accounting Standards) Rules, 2006 and not from the perspective of Indian Accounting Standards (Ind ASs), notified under the Companies (Indian Accounting Standards) Rules, 2015.

Further, the facts given in ICAI’s Expert Advisory Committee’s Opinion in case of Volume XLI (Part I), Query No.19 are not similar to the work of M/s D and not mentioning that accounting treatment of expenditure incurred on the assets not owned by Company (expenses paid by way of Grants for assets owned by other company) should be recognised as an expense in the Statement of Profit and Loss of the Company paying Grant for creation of assets.

In our case, Company has incurred above expenditure out of share capital / bank borrowings. For determining the cost of Property, Plant and Equipment in accordance with Indian Accounting Standard (Ind AS) 16, the accounting policy of the Company with respect to Capital work in Progress is given in Notes forming part of the Financial Statements at note 2.3, which is reproduced below:

“2.3 Capital Work-In-Progress (CWIP)

Capital work-in-progress for use or for administrative purposes is carried at cost less accumulated impairment loss, if any, until construction and installation are complete and the asset is ready for its intended use.

Construction expenditures, fees paid to consultants and *all other costs less any income directly attributable to the Project during construction are shown as Capital Work in Progress till capitalisation*. The same shall be allocated to the Assets in the ratio of Assets capitalised to the total Capital Work In Progress. Recovery from Contractors towards interest and others are adjusted against Construction Expenditure pending Capitalisation. Income pertaining to

construction period such as interest income (other than from temporary deployment of funds received by way of equity and grant), tender/ bid processing fees, etc. is adjusted against the expenditure during construction.

Advances paid towards the acquisition of Property, Plant and Equipment outstanding at each Balance Sheet date is classified as Capital Advances under Other Non-Current Assets.

Interest During Construction (IDC) less any investment income on the temporary investment of those borrowings in respect of qualifying assets capitalised during the year, is allocated in the ratio which the value of capitalised assets bear to the qualifying CWIP as on the date of capitalisation.”

Accordingly, the expenditure of Rs. 931.23 crore related to M/s D work being deemed as capital cost has been shown under Capital Work-in-Progress as per the accounting policy of the Company, which is in accordance with the applicable Ind AS. The same shall be allocated to the assets in future in the ratio of assets capitalised to the total Capital Work-in-Progress. The year-wise break-up of Rs. 931.23 crore is as under:

1. F.Y. 2017-18 - Rs. 0.23 crore
2. F.Y. 2018-19 - Rs. 256.67 crore
3. F.Y. 2019-20 - Rs. 154.33 crore
4. F.Y. 2020-21 - Rs. 279.00 crore
5. F.Y. 2021-22 - Rs. 252.00 crore
6. F.Y. 2022-23 - Rs. -11.00 crore

The Company is following the above policy since inception.”

(Emphasis supplied by the querist.)

7. The Company has also given assurance to the C&AG to take the expert opinion on the matter of accounting treatment of grant released to M/s D and follow the accounting treatment as per the expert opinion.

B. Query

8. In view of above, the Company now seeks the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) on the following issues:

- (i) Whether the Company’s accounting treatment to show grant released to M/s D under the head ‘Property, Plant and Equipment’ is in line with the provisions of Indian Accounting Standard (Ind AS) 16, ‘Property, Plant and Equipment’.
- (ii) If not, what should be the correct accounting treatment?
- (iii) If no, what is the alternative accounting treatment available with the Company regarding treatment of such expenditure relating to grant released to M/s D for extension of Airport Express line to the Company’s project site.

C. Points considered by the Committee

9. The Committee notes that the basic issue raised in the query relates to accounting treatment of payments made for extension of Airport Express line. The Committee has, therefore, considered only this issue and has not examined any other issue arising from the Facts of the Case such as, accounting for land provided by the Company to M/s D, appropriateness of accounting policy followed by the Company for asset capitalisation, accounting for construction expenditures, fees paid to consultants or any other cost incurred, accounting for advances paid towards acquisition of Property, Plant and Equipment or to M/s D, accounting treatment of any income arising during construction including income on temporary investment of funds, whether there exists principal-agent relationship between the Government and the Company, whether the funds transferred to M/s D can be classified as a pass through grant from Government to M/s D under Ind AS 20, 'Accounting for Government Grants and Disclosure of Government Assistance', allocation of CWIP to assets, etc. The Committee wishes to mention that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time. Further, the opinion expressed is purely from accounting perspective and not from legal perspective.

At the outset, the Committee wishes to point out that though earlier EAC opinions issued on similar subjects have been referred to in the Facts of the Case, the Committee's opinions are based on the specific facts provided to it and may not necessarily apply in scenarios/situations with different facts. Therefore, the Committee has independently examined the issues referred by the querist in the facts and circumstances of the extant case and the extent to which the earlier opinions are applicable or are relevant has not been examined by the Committee.

10. The Committee notes from the Facts of the Case that the Company has entered into an agreement with M/s D, the relevant clauses of which have been reproduced as below:

- “2. M/s D will extend ... Airport Metro Express line upto ... for a length of about 1.708 km, terminating it at Exhibition-cum-Convention Centre (ECC), ... at a total completion cost of Rs. 881 crores (Rupees Eight Hundred Eighty-One Crores only) as per Detailed Project Report (DPR) for the extension approved by Department of Industrial Policy and Promotion (DIPP).
3. Detailed Project Report for the above extension prepared and submitted by M/s D in March 2017 which was approved by DIPP vide its letter no. ... dated 31/03/2017 and the implementation of this extension will be exactly as proposed therein unless agreed in writing among the parties.
4. Whereas, cost of Rolling stock and Depot Augmentation amounting to Rs. 796 crores (Rupees Seven Hundred Ninety-Six crores only) will be borne by Government of India and Government of Delhi... An amount of Rs. 61 crores (in addition to para 8 below) as non-refundable grant is required to be paid to M/s D for making further payment to Railways for the purpose of temporary licensing and way leave facility charges of railway land for metro extension to ECC campus.”
- “8. The total amount payable to M/s D for this work will be Rs. 881 crores in the form of non-refundable “Grant”. The Grant will be released by the Company to M/s D on quarterly basis within 15 days of submission of Demand Note by M/s

D, after utilization of amount already released earlier, subject to the overall yearly limits and deduction of tax as per the applicable rate...

9. Ownership of all the assets (except land provided by the Company within ECC area) created in connection with extension of the corridor into ECC will vest with M/s D.
10. Operation and maintenance of all the fixed assets as well as rolling stock including but not limited to protection of station building and activities required to maintain law and order will be done by M/s D at its own cost. M/s D will also be responsible to replace, at its own cost, these assets after they complete their useful life.
11. Revenues generated by carriage of commuter traffic as well as through advertisements, property development etc. within the premises of metro stations area will accrue to M/s D.”

11. With regard to the accounting for the expenditure incurred by the Company in relation to extension of Airport Express line, the Committee notes that the first issue to be examined is whether an individual asset (tangible or intangible) may be recognised in respect of such expenditure. In this regard, the Committee notes the definition of ‘asset’ and other requirements from Ind AS 38, ‘Intangible Assets’, Ind AS 16, ‘Property, Plant and Equipment’, Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS), issued by the ICAI (hereinafter referred to as ‘Conceptual Framework’) and Ind AS 116, ‘Leases’ as follows:

Ind AS 38

“An *asset* is a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.”

“Control

- 13 An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.”

“18 The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- (a) the definition of an intangible asset (see paragraphs 8–17); and
- (b) the recognition criteria (see paragraphs 21–23).

This requirement applies to costs incurred initially to acquire or internally

generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.”

“21 An intangible asset shall be recognised if, and only if:

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and**
- (b) the cost of the asset can be measured reliably.”**

Ind AS 16

“Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**
- (b) are expected to be used during more than one period.”**

“7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and**
- (b) the cost of the item can be measured reliably.”**

“9 This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity’s specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.”

“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.”**

Conceptual Framework

“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.”

“4.20 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.”

“4.23 For an entity to control an economic resource, the future economic benefits from that resource must flow to the entity either directly or indirectly rather than to another party. This aspect of control does not imply that the entity can ensure that the resource will produce economic benefits in all circumstances. Instead, it means that if the resource produces economic benefits, the entity is the party that will obtain them either directly or indirectly.”

Ind AS 116

“Lease A contract, or part of a contract, that conveys the right to use an asset (the **underlying asset**) for a period of time in exchange for consideration.”

“9 At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs B9–B31 set out guidance on the assessment of whether a contract is, or contains, a lease.”

From the above, the Committee notes that an asset (tangible or intangible) should be recognised in the financial statements when the future economic benefits from such asset are expected to flow to the Company and cost can be measured reliably. However, to meet the definition of asset, it needs to be a resource controlled by the Company in first place. In this regard, with regard to ‘control’, the Committee also notes that an entity controls an asset if the entity has the power or present ability to obtain the future economic benefits flowing from the underlying resource and to restrict or prevent the access of others to those benefits. Accordingly, it is only where the asset is controlled by the Company in the manner envisaged by paragraph 13 of Ind AS 38 and Conceptual Framework and other conditions as per recognition criteria are satisfied, the Company should recognise an asset in its financial statements in respect of the expenditure incurred.

In this regard, the Committee notes from the facts supplied and agreement between the Company and M/s D that although the Company has provided funds for the extension of Airport Express line to M/s D, ownership of all assets created in connection with the extension will vest with M/s D. Further, the revenue generated from these assets will belong to M/s D. Thus, although the metro line may enhance the future revenue of the Company by ensuring easy access for the visitors of ECC, the same will not result into any future economic benefits that are attributable to the use of the asset by the Company. Further, the expenditure incurred does not result into any resource controlled by the Company as neither the Company owns the assets created out of the expenditure nor it can restrict or prevent others from having access of benefits from the assets. Therefore, the extension of Airport Express line cannot be recognised as an individual item of property, plant and equipment (PPE) or intangible asset as per the principles

of Ind AS 16 and Ind AS 38. Further, since the arrangement also does not give to the Company any right to control the use of any assets created out of the funds given to M/s D or from the expenditure incurred, the arrangement cannot also be considered as giving rise to any right-of-use asset under Ind AS 116, 'Leases'.

12. Now, the Committee examines whether the expenditure incurred for extension of the Airport Express line by the Company can be included as a part of cost of the Project (i.e. Exhibition-cum-Convention Centre and allied infrastructure) as a unit of measure for recognition as per the requirements of Ind AS 16. In this regard, the Committee notes that paragraph 16 of Ind AS 16, inter alia, states that the cost of an item of property, plant and equipment comprises 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. The costs that are directly attributable to the construction/acquisition of an item of PPE/project for bringing it to the location/condition as envisaged above are expenditure without the incurrance of which, the construction of project/asset could not have taken place and the project/asset could not be brought to the location and condition necessary for it to be capable of operating in the manner intended by management, such as, site preparation costs, installation costs, salaries of engineers engaged in construction activities, etc.

In this context, the Committee notes that extension of the Airport Express line may benefit the Company in terms of more visitors of ECC due to easy accessibility through metro line. However, it does not facilitate ECC construction activity. The Company will be able to construct and operate the ECC and other parts of the project even without the extension of the metro line. Thus, it cannot be said that without incurrance of this cost viz. extension of the Airport Express line, the construction or operation of any asset/project could not have taken place. In other words, the cost incurred on extension work cannot be said to facilitate the construction activity or for bringing the assets of the project to the location and condition necessary for them to be capable of operating in the manner intended by management. Further, from the facts and documents supplied, it appears that though the above-mentioned expenditure is part of the DPR of the entire project, it is not a pre-condition for development of the Exhibition-cum-Convention Centre and other infrastructure. Accordingly, the Committee is of the view that the above-said expenditure cannot be considered as directly attributable to bringing the Project to the location and condition necessary for it to be capable of operating in the manner intended by management as per the requirements of Ind AS 16 and hence, such expenditure should be recognised as an expense in the Statement of Profit and loss as and when incurred.

D. Opinion

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

- (i) The Company's accounting treatment of the funds/grant released to M/s D as 'Property, Plant and Equipment' (CWIP) is not in line with Ind AS 16, as discussed in paragraphs 11 and 12 above.
- (ii) & (iii) The expenditure should be recognised as an expense in the Statement of Profit and Loss as and when incurred for reasons discussed in paragraph 12 above.
