Query No. 18

Subject: Accounting treatment of payment made to NHAI for development of road connectivity to Exhibition-cum-convention Centre (ECC Centre) Project.[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). The brief profile of the Company has been supplied by the querist separately for perusal of the Committee.

2. As per approval of the Union Cabinet (a copy of the Order dated 22.11.2017 has been supplied separately by the querist for the perusal of the Committee), the project scope includes the development of external road connectivity to the ECC through National Highways Authority of India (NHAI) at a sanctioned cost of ₹ 442.39 crore.

3. The querist has stated that out of the approved amount, a sum of ₹ 354.89 crore has already been paid to NHAI covering land cost and instalment payments towards the road development as per the details given below:

S. No.	Particulars	Amount (INR Crores)	Remarks
1	Cost of land measuring 18.66 acres	92.39	vide UTR dated 12.03.2019
	1st Installment	87.50	vide UTR dated 28th August, 2019
3	2nd Installment	87.50	vide UTR dated 7th October, 2020
4	3rd Installment	87.50	vide UTR dated 08.05.2023
	Total	**354.89**	

4. Based on utilisation certificates received from NHAI, the Company initially recognised the expenditure under Capital Work-in-Progress (CWIP) up to financial year (F.Y.) 2022-23, pending completion and commissioning of the ECC Project.

5. Upon commencement of commercial operations from 1st October 2023, the project was capitalised during F.Y. 2023-24 under the head Property, Plant and Equipment (PPE), in accordance with Ind AS 16, which, as per the querist, requires capitalisation of costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management.

6. According to the querist, the external road connectivity was considered a fundamental component required for the operational functionality of the ECC project. In the absence of such infrastructure, the facility would not be accessible or capable of operating as designed.

[1] Opinion finalised by the Committee on 4.11.2025.

Therefore, the Company treated the payment made to NHAI as a directly attributable cost related to the ECC's development.

7. The querist has further stated that the accounting treatment is further supported by ITFG Clarification Bulletin 11, Issue 8, issued by the erstwhile Ind AS Transition Facilitation Group (ITFG) of Ind AS Implementation Committee of the Institute of Chartered Accountants of India (ICAI), which permits capitalisation of expenditure incurred on external infrastructure such as roads and railway sidings when these are *integral to the functionality and use of the asset/project.* (Emphasis supplied by the querist.)

8. The Company's accounting policies relating to CWIP and PPE (as disclosed in the financial statements) clearly define the recognition of directly attributable costs during the construction period as part of the asset cost. The same is reproduced below by the querist as follows:

"2.2 Property, Plant and Equipment

2.2.1 Initial Recognition and Measurement
Property, Plant and Equipment is initially measured at cost of acquisition/ construction including 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. After initial recognition, Property, Plant and Equipment is carried at cost less accumulated depreciation/ amortisation and accumulated impairment losses, if any.

The cost of fixed assets comprises its purchase price net of any trade discounts and rebates, any import duties and other taxes (other than those subsequently recoverable from the tax authorities), any directly attributable expenditure on making the asset ready for its intended use.

In the case of commissioned assets, where final settlement of bills with contractors is yet to be effected, capitalisation is done on provisional basis subject to necessary adjustments in the year of final settlement."

"**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."

9. The Office of the Director General of Audit, Industry and Corporate Affairs, initially issued a 'Nil' comment during the supplementary audit of financial statements for the F.Y. 2023-24.

10. However, vide letter dated 13th May 2025, the Audit office raised an observation regarding the above accounting treatment, suggesting that the payment to NHAI should have been charged to the Statement of Profit and Loss for F.Y. 2023-24. The Audit further advised the Company to seek the opinion of the Expert Advisory Committee (EAC) of the ICAI in this matter.

11. *Management's Position*

- The road infrastructure developed by NHAI is *critical and integral* to the operational readiness of the ECC project. Without this infrastructure, the ECC would not be able to function in the manner intended by management.
- The expenditure was incurred specifically during the construction phase and is *directly attributable* to making the main project asset usable and accessible.
- Accordingly, the Company capitalised the expenditure in accordance with paragraph 16 of Ind AS 16, which states:

  "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."
- This approach is also supported by ITFG Clarification Bulletin 11, Issue 8, which recognises the capitalisation of infrastructure costs, such as, external roads and railway sidings when essential to the operation of the project.
- The Company is of the view that the payment to NHAI meets the above criterion and hence qualifies for capitalisation as part of PPE.
- The expenditure is being recognised on the basis of utilisation by NHAI, and the unreleased 4th installment will also be capitalised once utilisation is confirmed, following the same accounting policy.

(Emphasis supplied by the querist.)

B. Query

12. In view of above, the querist has sought the opinion of the Expert Advisory Committee of the ICAI on the following issues:

(i) Whether the accounting treatment adopted by the Company, i.e., capitalisation of the amount paid to NHAI for development of road connectivity as part of the cost of the ECC project under the head, 'Property, Plant and Equipment', is in accordance with the provisions of Indian Accounting Standard (Ind AS) 16.

(ii) If not, what should be the appropriate accounting treatment for such expenditure in the financial statements?

(iii) In case capitalisation is not considered appropriate, what are the alternative options available to the Company for accounting for the payment made to NHAI towards development of external infrastructure that is functionally linked to the ECC project's operations?

C. Points considered by the Committee

13. The Committee notes that the basic issue raised in the query relates to accounting treatment of amount paid for development of road connectivity to Exhibition-cum-Convention Centre (ECC Centre)/ Project. 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 in the books of NHAI, appropriateness of accounting policy followed by the Company for asset capitalisation, accounting for construction expenditure or any other cost incurred during construction, such as, fees paid to consultants, accounting for income or interest earned during construction period, appropriateness of allocation of expenditure (net of income) to the assets being capitalised, accounting for recovery from contractors towards interest, accounting for funds received by the Company by way of equity and grant, accounting for advances paid towards the acquisition of property, plant and equipment, whether there exists principal-agent relationship between the Government and the Company, 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 or revised from time to time. Further, the opinion expressed is purely from accounting perspective and not from legal perspective.

14. The Committee notes the following paragraph of Ind AS 16, Property, Plant and Equipment:

> "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."

From the above, the Committee notes that Ind AS 16 does not prescribe the unit of measure for recognition and states that judgement is required in applying the recognition criteria to an entity's specific circumstances. Thus, any item which meets the definition of PPE under Ind AS 16 can be considered as a separate unit of measure. The Committee, however, notes from the Facts of the Case that the expenditure incurred is for providing 'connectivity' to the road rather than the 'road', wholly dedicated for the ECC Centre/Project. Therefore, if such expenditure is to be capitalised, the unit of account of PPE shall be the underlying asset i.e. ECC Centre and not the road.

15. The Committee now examines whether the expenditure incurred on development of road connectivity by the Company can be included as a part of cost of the ECC Centre/ Project.

In this regard, the Committee notes the following requirements from Ind AS 16, 'Property, Plant and Equipment':

"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."

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

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs."

From the above, 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 Committee is of the view that these requirements do not mean that *all* expenditure incurred for making the asset operational as per the intentions of the management should be capitalised as cost of PPE, (for example, costs incurred as specified at paragraph 19 of Ind AS 16 as reproduced above); rather *only costs which are directly attributable to bringing the asset to the location and condition* necessary for it to be capable of operating should be considered for capitalisation as part of the cost of the PPE. The costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating are the costs or expenditure without the incurrence 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. Further, the Committee is of the view that the 'manner intended by management' should be understood with reference to the asset itself (viz., the ECC Centre in the extant case) and not with reference to the related additional infrastructures or other facilities (such as, providing connectivity to an already existing road in the extant case) that will be used simultaneously with the other currently existing infrastructures related to the asset and which are developed as per the decision of the management to increase its current revenues.

In this context, the Committee also notes from the details given regarding instalments being paid to NHAI for road development that the same started from the year 2019 and continued till 2023. The Committee further notes from the project details shared separately that the commercial operation of ECC Centre started in the year 2023. This indicates that the development of road and the project development were taking place simultaneously and thus, the road was not necessary for construction of the project.

The Committee further notes from the Techno-Economic Feasibility Report, which is annexed to the Memorandum for Public Investment Board (PIB)/Committee on Establishment Expenditure (CEE) for the Development & Implementation of ECC Project and Formation of SPV (provided separately by the querist) that initially, during site selection and initial screening of various identified sites for ECC facility, the current site was selected citing as below:

> "The proposed site has well planned transport connectivity, including MRT connectivity in close proximity. The site provides the opportunity to integrate the ECC with a retail and entertainment, mixed-user center creating greater synergies between land uses."

Thus, it appears from the above that there was already a developed connectivity by road to the site of ECC Centre for enabling construction and development of the Project and also for operational viability after construction is over.

Further, from various other documents and approvals, it is noted that in the context of road development, NHAI has demanded a sum of Rs. 350 crores as cost of additional structures for dedicated entry/exit points from Urban Extension Road (UER) and the nearby Expressway, (thus requiring certain costs to be incurred by NHAI on additional entry/exit points, towards costs of modifications to Expressway and on traffic decongestion measures). The Committee also notes from the 'brief profile' shared by the querist that "the facility will also have multiple connections from Urban Extension Road I and II which are extended ring roads within Delhi".

Thus, it appears that the objective of incurring the expenditure on road connectivity was to create separate additional access to the ECC Centre from the main roads and expressways so as to enable easy accessibility to the visitors to the centre and for overall development of the area to increase its attractiveness. Therefore, although such road connectivity to ECC Centre may increase the future economic benefits flowing from the overall ECC Project, the same does not appear to be necessary for making the ECC Centre operational/capable of operating in the manner intended. Accordingly, considering the above-reproduced requirements of Ind AS 16, the expenditure incurred on road connectivity should not be considered as directly attributable to bringing the ECC Centre to the location and condition necessary for it to be capable of operating in the manner intended by management; and hence cannot be capitalised as part of cost of any PPE; rather should be recognised as an expense in the Statement of Profit and Loss when incurred.

D. Opinion

16. On the basis of the discussions made at paragraphs 14 and 15 above, the Committee is of the opinion on the issues raised in paragraph 12 above (subject to paragraph 13 above) that the expenditure incurred on road connectivity should not be considered as directly attributable to bringing the ECC Centre to the location and condition necessary for it to be capable of operating in the manner intended by management and hence, cannot be capitalised as part of cost of any PPE; rather should be recognised as an expense in the Statement of Profit and Loss when incurred.

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