Query No. 20

Subject: Accounting treatment of non-construction fee under Ind AS framework.[1]

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a company limited by shares, domiciled in India and was incorporated in June 1964 under the erstwhile Companies Act, 1956 as the steel plant construction arm of the Government of India (GoI). Pursuant to a financial restructuring in April 2017 and subsequent acquisition of 51% of its equity shares by N Limited, the Company became a subsidiary of N Limited and came under the administrative control of the Ministry of Housing and Urban Affairs. The Company is an unlisted company and has been conferred the coveted Mini-Ratna Category-I status in the year 2022.

2. The Company operates in two major business segments, namely:

(a) Project Management Consultancy (PMC), and

(b) Engineering Procurement & Construction (EPC).

Under the PMC segment, the Company executes cost-plus contracts obtained from Central/ State Government Departments or Central/ State Public Sector Units either on a nomination basis or through competitive bidding. The projects are implemented by the Company through contractors selected in transparent tendering process.

Under the EPC segment, the Company undertakes fixed-price contracts and the execution of work is carried out through agencies/sub-contractors.

Indian Accounting Standards (Ind AS) became applicable to the Company with effect from 1st April 2017. Accordingly, the financial statements for the financial year (F.Y.) 2017-18 were prepared in compliance with Ind AS, along with comparative figures for the F.Y. 2016-17 and the opening balance sheet as at 1st April 2016.

3. The Company was allotted a plot of land measuring 4,841.66 square yards in Mohali, Punjab by the Greater Mohali Area Development Authority (GMADA) on 22nd February 2011 for the purpose of constructing an office building complex. The land was purchased for a consideration of Rs. 12,10,41,500/-.

4. The Conveyance Deed was entered into between the GMADA and the Company on 13.03.2015. As per the Conveyance Deed, construction of the office complex was to be completed within a period of 3 years from the date of possession of land but due to financial crunch, the construction could not be carried out. Moreover, as the proposal for restructuring of the Company was pending with GoI, the Company could not proceed with capital commitment till the time the Company being taken over by N Limited in the year 2017 and thus, the process for construction was delayed. Finally, after being taken over by N Limited, the process for construction of plot was started in the F.Y. 2018-19, but unfortunately due to Covid-19 pandemic, the work could not be taken up.

[1] Opinion finalised by the Committee on 14.11.2025.

5. Subsequently, as instructed by GMADA vide letter dated 30.08.2023, the Company paid an amount of Rs. 2,53,700/- towards proof checking and structural vetting of drawings to 'T Institute of Engineering and Technology' during June, 2024.

6. Further, the Company has also paid Rs. 22,02,741/- towards obtaining building permission as per demand raised by State Urban Development Authority during January 2025. As on date, building permission, approval of drawings, etc. are still awaited from GMADA, Government of Punjab.

Accounting Treatment of Non-Construction Fees of GMADA

7. Initial Construction/ Possession Charges during the year 2014:

Extracts of Clause 4 of the Conveyance Deed entered into between the Company and GMADA are mentioned as under:

> "(4) The Transferees shall within three years from the date of issue of allotment order namely Order Dated: 22/02/2011 complete the construction of Office purpose on the said site, the plans of which shall be in accordance with the rules made and directions given from time to time by the Vendor or the Chief Administrator …… in this respect and approved by the Chief Administrator or any officer duly authorized by him in this behalf.
>
> Provided that the time under this clause may be extended by the Estate officer in case the failure to complete the building by the stipulated date was due to reasons beyond the control of the Transferees."

Based on the date of allotment order, the stipulated construction period expired on *21.02.2014.* Accordingly, GMADA considered the period of delay from *22.02.2014 to 31.12.2014* (313 days) and had levied charges at *2% of the consideration amount*, amounting to *Rs. 20.76 lakh* as *construction/ possession charges*. This amount was duly paid by the Company on 10.10.2014.

(Emphasis supplied by the querist.)

Accounting Treatment made during 2014:

Land (A/c head: Property, Plant and Equipment)	Dr	Rs. 20.76 lakh	
Bank A/c		Cr	Rs. 20.76 lakh

8. *Subsequent Demand of Construction Extension Fees by GMADA during the year 2021:*

GMADA, vide its letter dated *02.03.2021*, demanded an amount of *Rs. 300.68 lakh* (inclusive of GST of Rs. 45.87 lakh), as *Construction Extension Fees* up to *30.06.2021.* In accordance with the above demand letter dated 02.03.2021 issued by GMADA, the Company started making necessary provisions in its books *under Capital Work-in-Progress (CWIP)* for the *Non-Construction Fees* on quarterly/ annual basis, by self-calculating the fees for each year up to *31.03.2024.* (Emphasis supplied by the querist.)

9. *Observations of C&AG during F.Y. 2022-23:*

C&AG had raised a query during the audit of accounts of F.Y. 2022-23, as mentioned below:

> "… includes Rs. 322.33 lakhs relating to construction/extension fees & Consulting charges for Construction of Mohali Land in *Capital Work-in-Progress* added during the year 2022-23. Audit noticed that as on 31.03.2023, a total amount of Rs. 342.50 lakh was payable towards construction/extension fees, out of which an amount of Rs. 20.76 Lakh was already paid to Greater Mohali Development Authority for construction extension fees on 10.10.2014. However, despite incurring this cost towards building, this amount of Rs. 20.76 lakh was not included in CWIP and was instead included in Property, Plant & Equipment.
>
> As per paragraph 16 of Ind AS 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.
>
> Thus, in view of above explanation, the amount of Rs. 20.76 lakh paid for construction extension fees paid to GMADA should have been included in Capital Work-in-Progress instead to Land under Property, Plant & Equipment as the cost was directly attributable to the asset on the location which is yet to put at use.
>
> …"

10. Pursuant to the audit observations of the Comptroller and Auditor General (C&AG), the Company rectified the earlier accounting treatment as under:

Capital-work-in-progress	Dr	Rs. 20.76 lakh	
Land (A/c head: Property, Plant & Equipment)		Cr	Rs. 20.76 lakh

11. *Subsequent Demand of Construction Extension Fees by GMADA during the year 2025:*

Further, GMADA, vide its letter dated *1st February 2025*, intimated the Company for deposit of *Non-Construction Fee* of *Rs. 409.57 lakh*, inclusive of GST and Penal Interest, upto *28th February 2025*, along with a detailed calculation.

The outstanding amount of *Rs. 409.57 lakh* includes *Rs. 73.20 lakh* as *Penalty* upto December 2024. This was earlier booked under *"Capital Work-in-Progress"* and subsequently the amount of Rs. 73.20 lakh charged to the *Profit and Loss Account as Penalty during F.Y. 2024-25 (Sl. no. 5 of the Table-1 below).*

Further, *Penal Interest for* January–March 2025, not previously accounted for, amounting to *Rs.6.78 lakh,* was charged to P&L A/c *during F.Y. 2024-25. (Sl. no. 6 of the Table-1 below).*

After incorporating these adjustments, the closing balance of '*Capital Work-in-Progress*' relating to GMADA was *Rs. 363.65 lakh* as on *31.03.2025.*

12. *Summary of Entries passed in the Company's books from F.Y. 2022-23 to F.Y. 2024-25:*

Table-1: Accounting Treatment of Non-Construction Fees in Books of Account of the Company

Sl.	**Particulars of Entries**	**Debit (Rs. in Lakh)**	**Credit (Rs. in Lakh)**
During F.Y. 2022-23			
1.	Capital Work-in-Progress A/c Dr.	321.74	
	Other Liabilities A/c		321.74
	(Being liability provided for non-construction fees vide GMADA demand dt.30.06.21)		
During F.Y. 2023-24			
2.	Capital Work-in-Progress A/c Dr.	20.76	
	Land A/c		20.76
	(Being rectification of non-construction fees paid as per C&AG memo of F.Y. 22-23)		
3.	Capital Work-in-Progress A/c Dr.	56.07	
	Other Liabilities A/c		56.07
	(Being liability provided for non-construction fees for F.Y. 23-24)		
During F.Y. 2024-25			
4.	Capital Work-in-Progress A/c Dr.	41.01	
	Other Liabilities A/c		41.01
	(Being liability provided for non-construction fees for F.Y. 24-25)		
5.	P/L (Penal Interest) A/c Dr.	73.20	
	Capital Work-in-Progress A/c		73.20
	(Being Penalty Portion Already in CWIP till Dec 2024 transferred to interest a/c of P/L)		
6.	P/L (Penal Interest) A/c Dr.	6.78	

	Other Liabilities A/c		6.78
	(Being Penalty Portion accounted for March 25 of F.Y. 24-25)		
7.	Other Liabilities A/c Dr.	28.55	
	Capital Work-in-Progress A/c		28.55
	(Being Reversal of excess CWIP already in the books)		

13. *Observations of C&AG on Books of Account of F.Y. 2024-25:*

C&AG has raised another query during the audit of accounts of F.Y. 2024-25, as mentioned below:

> "… As per terms and conditions of the allotment order and sale deed, the Company was required to complete the construction on the said plot of land within a period of three years from date of allotment order i.e. by February 2014. As the Company neither initiated nor completed the construction activity within the stipulated timeline and even after subsequent extensions, GMADA levied non construction fees, which is in the nature of penalty as the Company could not adhere to the conditions of the allotment order and sale deed.
>
> *Para 16 (b) of Ind AS 16,* Elements of Cost, 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.
>
> In this regard, it is observed that the above includes an amount of Rs. 3.64 crore on account of non-construction fees payable to Greater Mohali Area Development Authority. As the amount paid towards extension fees is a form of penalty which is neither directly attributable nor a condition necessary for operating the asset and was avoidable in nature, the *same should have been charged off as an expenditure. Inclusion of above under CWIP has resulted into its overstatement with understatement of expenses and consequent overstatement of profit.*
> ..."

The Company's Response to the C&AG Observations of 2024-25:

14. The Company submitted its response to the observations of the Comptroller & Auditor General (C&AG) regarding the payment of non-construction fees to GMADA:

*(i) Contention of Audit Characterisation as 'Penalty'***:**

The contention of the audit that the payment of non-construction fees constitutes a *penalty* is not agreeable on the following grounds:

- *Clause 4 of the Conveyance Deed:*

  Relevant *Clause 4* of the Conveyance Deed (a copy of the Conveyance Deed has been supplied separately by the querist for perusal of the Committee) provides:

“The Transferees shall within three years from the date of issue of allotment order namely Order Dated: 22/02/2011 complete the construction of Office purpose on the said site, the plans of which shall be in accordance with the rules made and directions given from time to time by the Vendor or the Chief Administrator … in this respect and approved by the Chief Administrator or any officer duly authorized by him in this behalf.

Provided that the time under this clause may be extended by the Estate officer in case the failure to complete the building by the stipulated date was due to reasons beyond the control of the Transferees.”

As evident from the above clause, there is *no mention of penalty or its quantification* in the Conveyance Deed in respect of non-construction.

- *Extension Policy under Government of Punjab:*

In the extension policy of the Government of Punjab, Department of Housing and Urban Development, notified in the Punjab Government Gazette (Extra) dated *9th June 2010* under Rule 2:

“… The transferee shall complete the building as per the approved building plan within a period of three years from the date of possession of the land, failing which the Estate Officer may resume the land or building or both, as the case may be, in accordance with the provisions of section 45 of the Act.

Provided that the Estate Officer may extend the period of three years, if he is satisfied that the building could not be completed by the transferee due to the reasons beyond the control of the transferee on payment of such fee, as is specified in the table given below:

Provided further that the *period of extension shall not exceed twelve years,* which shall be counted after the expiry of the period of three years from the date of possession of land.”

Further, Rule 2 stipulates:

“(2) The fee for the period of extension shall be paid by the transferee within a period of thirty days from the date of the order, made with regard thereto by the Estate Officer:

Provided that the period of thirty days may be extended by the Chief Administrator, if he is satisfied on the request of the transferee upto the period of six months from the date of request, failing which the transferee shall have to pay such penal interest, as may be determined by the Authority.”

- Interpretation:

From the above, it is clear that the extension/non-construction fee payable for up to twelve years from the date of possession is fully within the legal framework and cannot be termed as a penalty, as it does not contravene any law of the land.

(ii) *Accounting Treatment:*

The Company has accounted for the *penal interest component* from the above claim in the *Profit and Loss Account*. Thus, the Company has treated *only penal interest as a penalty*, while the non-construction fee itself has been accounted as per the legal and contractual provisions.

(iii) *Applicability of Ind AS and Schedule III***:**

With regard to the accounting treatment of these charges**,** *no specific guidance is provided under any of the Ind AS Rules, 2015 (as amended to date)*, nor under *Schedule III, Division II of the Companies Act, 2013*. Accordingly, the Company has followed accounting principles in line with the legal framework and the substance of the transaction.

(iv) *Amnesty Policy 2025 of GMADA and Subsequent Action by the Company:*

On 20.02.2025, the *Government of Punjab* introduced the *Amnesty Policy, 2025*, which substantially reduces the quantum of time extension charges payable. The Company applied for the reduction of liability of time extension charges under the Amnesty Policy 2025.

Pursuant to this application, the competent authority of GMADA approved the reduced amount and intimated the Company vide letter dated 10th July 2025, that *Rs. 249.27 lakh (inclusive of non-construction fees and GST)* was payable up to *June 2025*. The said amount of Rs. 249.27 lakh has been duly paid by the Company to GMADA on *16th September 2025*.

In view of differences of observations raised by various C&AG teams in F.Y. 2022-23 and 2024-25 regarding the accounting treatment of such construction extension/ possession charges/ non-construction fees, the Company assured C&AG that it would seek the opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) for the appropriate accounting treatment.

It may be noted that both, the Audit Committee of the Company and the Statutory Auditors of the Company, have not raised any observations or comments in this regard.

B. Query

15. In view of the above facts and considering the relevant provisions of applicable Indian Accounting Standards, the querist has sought the opinion of the Expert Advisory Committee as to whether the existing accounting treatment adopted by the Company for ‘Non-Construction Fees’ paid and payable, debited to ‘Capital Work-in-Progress’ till date is in compliance with the applicable Ind AS, or any modification is warranted.

C. Points considered by the Committee

16. The Committee notes that the basic issue raised by the querist relates to the accounting treatment of non-construction or extension fee. 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, measurement of non-construction fee, accounting at the time of transition to Ind AS, accounting at the time of financial restructuring and subsequent acquisition of 51% equity shares by N Ltd., accounting for PMC and EPC business segments, accounting for purchase of land including accounting for consideration paid, accounting for consulting charges, accounting for amount paid towards proof checking and structural vetting of drawings to 'T Institute of Engineering & Technology', accounting for amount paid towards obtaining building Permission as per demand raised by State Urban Development Authority, etc. appropriateness of creating provision for non-construction fee on quarterly/annual basis by self-calculating the fee, accounting for interest levied on the Company due to non-payment of non-construction/extension fee etc. The Committee, while expressing its opinion has laid down the accounting principles to be followed and has not examined the appropriateness/accuracy of journal entries furnished by the querist. Further, the opinion expressed hereinafter is purely from accounting perspective and not from legal perspective, such as, whether payment of extension/non-construction fee is justified or within legal framework and can be termed as penalty or legal interpretation of Conveyance Deed, building permission from GMADA, allotment order, Extension Policy, Amnesty Policy etc. The Committee wishes to point out that 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. At the outset, the Committee wishes to mention that the querist has used the term 'non-construction fee', 'possession charges' and 'construction extension fee' interchangeably, the Committee understands that these are same and have hereinafter used the term 'non-construction fee' for sake of convenience.

17. The Committee notes from the facts supplied that the Company was allotted a land by GMADA for construction of building for office purposes. The sale or conveyance deed was executed between GMADA and the Company. As per terms and conditions of the allotment order and sale deed, the Company was required to complete the construction on the said plot of land within a period of three years from date of allotment order. As the Company could not initiate or complete the construction activity within the stipulated timeline, GMADA levied from time-to-time, non-construction fees.

18. With regard to accounting treatment of the non-construction fee, the Committee notes the following requirements from Indian Accounting Standard (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.

17 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in Ind AS 19, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment). Excess of net sale proceeds of items produced over the cost of testing, if any, shall not be recognised in the profit or loss but deducted from the directly attributable costs considered as part of cost of an item of property, plant, and equipment; and

(f) professional fees."

"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 as per the requirements of Ind AS 16, only those items of costs which are 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 can be included in the cost of the asset. 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 direct costs or expenditure leading to construction or development of the asset, 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. In the extant case, non-construction fee has been levied on the Company by the authorities as the Company could not either initiate or complete the construction activity within the stipulated timeline and thus relates to delay in construction or non-compliance with the initial condition of timely construction under the terms of allotment. The Committee is of the view that such expenditure cannot be said to be necessary for the construction activity or for bringing any asset (land or building) to the location and condition necessary for it to be capable of operating; rather, it is the cost of holding the land without any construction or during construction, similar to administration costs incurred during construction. Therefore, it cannot be considered as cost directly attributable to bringing the land or building 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. Accordingly, the Committee is of the view that such expenditure cannot be capitalised and should be expensed by way of charge to the statement of profit and loss with appropriate disclosures.

D. Opinion

19. On the basis of the above, the Committee is of the opinion on the issue raised in paragraph 15 above that the non-construction fee relates to delay in construction or non-compliance with the initial condition of construction within stipulated time lines under the terms of allotment and therefore, it cannot be considered as cost directly attributable to bringing the land or building 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. Accordingly, such expenditure cannot be capitalised and should be expensed by way of charge to the statement of profit and loss with appropriate disclosures, as discussed in paragraph 18 above.

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