

### **Query No. 3**

**Subject:** *Capitalisation of dry dock expenditure as a separate component of dredgers and depreciation thereon after completion of their estimated useful lives.*<sup>1</sup>

#### **A. Facts of the Case**

1. 'A Ltd.' company (hereinafter referred as 'the Company') is a public company under the control of the Ministry of Shipping, mainly engaged in the dredging activities. The Company commenced its commercial operations in April 1977 and was incorporated with the objective of providing dredging services to major ports, minor ports and other maritime organisations covering both maintenance and capital dredging requirements. The Company is a listed company having its securities listed in the National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and Calcutta Stock Exchange (CSE). The Company (A Ltd.) owns most modern and sophisticated fleet consisting of one Cutter Suction Dredger, ten Trailer Suction Dredgers, one Backhoe Dredger, one Inland Cutter Suction Dredger and other ancillary crafts.

2. The Company's primary assets are dredgers and the useful life of these dredgers is estimated at 25 years. The residual value is estimated at 2% on original cost and remaining 98% depreciable value of dredgers is depreciated over the estimated useful life of 25 years on straight line method. Though the useful life of the dredgers is fixed at 25 years, out of 14 dredgers, 4 dredgers VIII, XI, XII and XIV have completed 25 years and yet are under operation for gainful dredging activities.

3. The querist has stated that the Company is mandatorily required to have registration under Indian Register of Shipping (IRS) for all its dredgers to operate in the oceans and to carry out dredging activities. Further, every dredger goes through a rigorous test to check the sea worthiness of the dredger and the dredger can be operated only when a certificate of fitness is provided by IRS. To obtain this certificate, the Company has to incur substantial amount of repair costs/overhaul costs. These costs are popularly known in the shipping industry as 'Dry Dock Expenditure'. Irrespective of the age of the dredger, every dredger must go through this rigorous inspection process. Therefore, to ensure passing of dredgers through this inspection process, the Company incurs dry dock expenditure before every inspection. Once the inspection of a dredger is done, the IRS provides fitness certificate for the dredgers, which also mentions the due date for the next inspection, which is generally after duration of 3-5 years. According to the querist, it is to be noted that irrespective of the age and useful life of the dredger, to continue to operate any dredger, the Company must necessarily incur dry dock expenditure and obtain necessary IRS survey certificates.

4. The Company has been considering these dry dock expenditure as major inspection costs and has been capitalising the dry dock expenditure incurred on its dredgers in line with paragraph 14 of Indian Accounting Standard (Ind AS) 16, 'Property Plant and Equipment', as follows:

“14 *A condition of continuing to operate* an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property,

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<sup>1</sup> Opinion finalised by the Committee on 28.4.2025.

plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.” (Emphasis supplied by the querist.)

Thus, major inspection expenditure may be capitalised only when it meets the recognition criteria. Recognition criteria as given in paragraph 7 of Ind AS 16 on ‘Property Plant and Equipment’s are as follows:

- “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.”**

In the instant case, to continue to operate a dredger, inspection and incurring of related dry dock expenditure is necessary. Hence, it squarely falls under the ambit of major inspection as stipulated in paragraph 14 of Ind AS 16. It also satisfies the recognition criteria specified in paragraph 7 on Ind AS 16 since its economic benefits will very much flow to the Company until next inspection’s due date and costs can be measured reliably. It is to be noted that the Company is also following stipulation of paragraph 14 with regard to derecognition of earlier major inspection costs at the time of capitalisation of new dry dock expenditure.

5. Being a public sector undertaking (PSU), the Company’s books of account are subject to commercial audit by the Comptroller and Auditor General of India (CAG). CAG in its reports for financial years 2021-22, 2022-23 and 2023-24 has commented on capitalisation of dry dock expenditure as major inspection costs in respect of dredgers whose useful life has expired.

The comment of CAG is reproduced by the querist as below:

**“Capitalisation of dry dock - Repairs and maintenance after completion of useful life of dredgers.**

As per the stated Accounting Policy of the Company, the useful life of the dredgers was specified as 25 years. Dredgers VIII, XI, XII and XIV were built between 1976 and 1991 and completed their useful lives and these assets were fully depreciated to their residual values prior to 1 April 2023. The Company carried out dry dock repairs of these Dredgers between February 2022 and March 2024 and capitalised the cost of dry dock repairs (including spares cost) of Rs. 7702.27 lakh and depreciated an amount of Rs. 920.77 lakh for the year 2022-23 and Rs. 1042.11 lakh for the year 2023-24 by considering the useful life from the date of completion of dry dock repairs to the next due date of docking survey certification by IRS.

Audit observed that capitalisation of dry dock expenditure on these Dredgers is in contravention to the Accounting Policy of the Company and opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) obtained

in this regard. As these assets have exceeded their useful lives, dry dock repairs incurred on Dredgers VIII, XI, XII and XIV should have been charged as Repairs and Maintenance (Vessels) cost under Other Expenses.

Non-compliance to the above has resulted in overstatement of Property, Plant & Equipment (Net) by Rs. 5739.39 lakh and understatement of Repairs and Maintenance (Vessels) cost under Other Expenses by Rs. 6781.50 lakh. Consequently, the Depreciation and Profit before Tax for the year 2023-24 were overstated by Rs. 1042.11 lakh and Rs. 5739.39 lakh respectively.

Despite C&AG's similar comments on the issue on the accounts of the Company for the years 2021-22 and 2022-23, the Company has not taken any corrective action in this regard during the year 2023-24."

*Company's response to the comments of CAG:*

6. As regards opinion of the Expert Advisory Committee (EAC) of ICAI, which CAG is referring, is the opinion which the Company had sought and was issued by EAC on 14-06-2016.

Vide Paragraph C of EAC opinion, EAC has clearly stated in its opinion that it has not examined several aspects while issuing its opinion, out of which one notable item is "accounting for cost of special survey and intermediate survey as a separate component". Further, in the same paragraph, EAC had stated that in expressing its opinion, it has only considered the Companies (Accounting Standards) Rules, 2006 and without considering the application of Accounting Standards amended by MCA vide Notification dated March 30, 2016.

Therefore, opinion that was issued by EAC was under the IGAAP framework and not under Indian Accounting Standards (Ind AS) framework. However, the Company had transitioned to the Indian Accounting Standards (Ind AS) framework in the year 2016-17.

After the advent of Ind AS framework, there were several discussion papers released by top auditing firms in India and ICAI via its journals explaining the impact of Ind AS and component accounting on the companies under shipping industry. All these discussion papers clearly stated that dry dock expenditure is to be considered as a separate component and the same needs to be capitalised. This accounting policy had been adopted by all the companies in shipping industry. Each of these companies is following a practice where dry dock expenses are capitalised and subsequently depreciated or amortised over a specified period, in line with the respective accounting policies disclosed in their financial statements.

Further, a member of the large audit firms, in its open paper on IFRS considerations for the shipping industry, clarified the treatment of dry-docking expenses under IFRS for Property, Plant and Equipment. The firm elaborated that major maintenance or overhauling costs, including dry-docking and special survey costs, are generally capitalised as part of the asset and depreciated until the next overhaul.

Similarly, another member of large audit firms, in its paper on IFRS accounting for the shipping industry, provided guidance on accounting for subsequent expenditure on Property, Plant and Equipment (PPE) and dry-docking expenses. The firm advised that dry docking expenses should be capitalised and amortised until the next dry docking. The relevant excerpt states, "Dry-docking (as the major overhaul) is identified and accounted for as a separate component and this amount would be depreciated over the period until the next dry-docking".

One of the articles in December 2015 issue of the journal of the ICAI, while explaining the component accounting with regard to major inspection or overhaul costs, mentioned in its example about capitalising and depreciating dry dock expenses over the period until next dry-docking.

Furthermore, the practice of capitalising dry-docking expenses is not confined to India; it is also a common accounting policy among internationally reputed foreign companies. Some foreign companies with registered offices outside India, follow similar accounting policies. These companies capitalise their dry-docking expenses, which are then depreciated until the next scheduled dry-docking.

This consistent approach across both Indian and international companies highlights the broad acceptance and application of this accounting practice of capitalising dry dock expenses.

Therefore, the EAC opinion quoted by CAG cannot be considered for the following reasons:

- Opinion is issued under IGAAP framework.
- EAC has not examined the aspect of component accounting in relation to major inspection/special survey.

7. As regards capitalisation of subsequent costs after expiry of useful life to the dredgers, the querist has drawn attention to the EAC opinion issued on 22.03.2023. The facts of the case are very identical to that of the case of the Company. In the case of Washery plant, the useful life of the plant has expired, however the same was under operation. To increase the efficiency and capacity of operations, certain major expenses were incurred and the same were allowed to be capitalised, since there are possible future economic benefits flowing to the organisation. From the opinion issued by EAC, it is evident that the existing useful life of the main asset or expiry of useful life of the main asset (Washery plant) is not a factor to determine capitalisation of subsequent costs. As long as the recognition criteria as per paragraph 7 of Ind AS 16 are met, capitalisation of the subsequent costs can be done and same can be depreciated over the period for which economic benefits are expected to be derived by the organisation.

Similarly, in the case of the Company, though the estimated useful lives of the dredgers have expired, the same are under gainful use and operation. If the mandatory dry dock expenditure and survey is not carried out, the dredgers' efficiency/capacity would become Nil. Only when dry dock repairs are carried out and IRS survey certification is obtained, dredgers can have dredging capacity and can generate future economic benefits to the Company. The Company is of the opinion that since the recognition criteria as per paragraph 7 of Ind AS 16 are met, capitalisation of the subsequent costs can be done and the same can be depreciated over the period for which economic benefits are expected to be derived by the Company, which is the period up to the next dry-docking due date.

Further, in case of dredgers whose useful lives have expired, the Company has reviewed the useful lives and extended the same. Paragraph 51 of Ind AS 16 mandates an annual review of useful lives of property, plant and equipment and if necessary, revise the estimated useful life of those assets. In accordance with this requirement, the Company had estimated the remaining useful life of the dredgers based on the dry dock surveys during the year, extending it up to the next scheduled date of dry dock. This review and subsequent extension of the useful life indicate that the useful life of these assets has not expired. This revision of useful life highlights the Company's estimation, intention and ability to use the dredgers for the Company's operations

over an extended period. As a result, the useful life of the component which is dry dock expenditure is well within the revised useful life of the main asset, thereby justifying the capitalisation of the dry dock costs.

In view of:

- non-applicability of earlier EAC opinion quoted by CAG,
- the fact that useful life of the said dredgers has been reviewed and extended up to the next dry-docking dates,
- dry dock expenditure on said dredgers meeting the recognition criteria as per paragraph 7 of Ind AS 16,
- dry dock expenditure being major inspection cost and independent component having different useful life, and
- EAC opinion on capitalisation of subsequent costs incurred on Washery Plant whose useful life has expired,

The Company is of the opinion that it has complied with the provisions of Ind AS in capitalising dry dock expenditure on the 4 dredgers VIII, XI, XII and XIV.

## **B. Query**

8. In view of above, the querist has sought the opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) on the following issues:

- (i) Whether the Company's accounting treatment of capitalising dry dock expenditure of 4 of its dredgers, namely, VIII, XI, XII and XIV is in compliance with the Ind AS Accounting Framework.
- (ii) Whether subsequent expense can be capitalised as separate component even after expiry of useful life of main dredger, i.e., 25 years for dredgers as per accounting policy of the Company.

## **C. Points considered by the Committee**

9. The Committee notes that the basic issue raised by the querist relates to the appropriateness of the Company's accounting treatment of capitalising the dry dock expenditure incurred during February 2022 to March 2024 as a separate component of the 4 dredgers, namely, VIII, XI, XII & XIV, after the expiry of the useful life of these dredgers. 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, dry dock expenditure in respect of other dredgers or PPE, estimation of useful life (of dredgers and major inspection/dry docking) and residual value of dredger, method of depreciation, derecognition of earlier recognised dry dock expenditure/major inspection costs, amortisation or depreciation of dredgers as a whole, etc. Further, the Committee has expressed its opinion purely from the accounting perspective and not from the perspective of legal interpretation of various legal enactments, such as, IRS Rules, Income-tax Act, etc. Furthermore, 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.

The Committee notes that earlier EAC opinions issued on similar subjects have been referred to by the querist in the Facts of the Case. In this regard, it may be mentioned that the Committee's

opinions are based on the specific facts provided to it and under the applicable accounting framework. Hence, these opinions may not necessarily apply in scenarios/situations with different facts and/or under different accounting framework. 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. With regard to accounting treatment of dry dock expenditure incurred in relation to the said dredgers, the Committee notes the following requirements of Indian Accounting Standard (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.**

8 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.”

“10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets.”

**“Subsequent costs**

12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the ‘repairs and maintenance’ of the item of property, plant and equipment.

- 13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67–72).
- 14 A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.”

11. From the above, the Committee notes that as per the requirements of Ind AS 16, following types of costs/expenditure can be capitalised as part of the cost of an item of property, plant and equipment:

- (i) subsequent expenditure in the form of replacement at regular intervals (paragraph 13 of Ind AS 16)
- (ii) subsequent expenditure in the form of nonrecurring replacements (paragraph 13 of Ind AS 16)
- (iii) regular major inspection cost, which is recognised as separate component of the PPE (paragraph 14 of Ind AS 16)
- (iv) Cost of spare parts, stand-by equipment and servicing equipment (paragraph 8 of Ind AS 16)

*Replacement at regular intervals:* The Committee notes from paragraph 13 of Ind AS 16 that parts of some items of PPE may require replacement at regular intervals. Thus, when the conditions of recognition as per paragraph 7 of Ind AS 16 are met, an entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred and the carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of Ind AS 16. Thus, these costs are normally recognised as a separate part or component of carrying amount of PPE and depreciated separately over the useful life of the part itself (as useful life of part/component is different from the useful life of the main asset) as per the requirements of Ind AS 16 reproduced and explained in paragraph 14 below.

*Nonrecurring replacements:* Paragraph 13 also deals with the situations where items of PPE may require nonrecurring or less frequent replacements. In such situations also, if the conditions of recognition as per paragraph 7 of Ind AS 16 are met, an entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred and the carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of Ind AS 16. These costs may also be recognised as separate part or component of carrying amount of PPE and depreciated separately over the useful life of the part itself (if they have different useful life from that of the main asset) as per the requirements of Ind AS 16, reproduced and explained in paragraph 14 below.

*Inspection costs:* Paragraph 14 of Ind AS 16, inter alia, states that, a condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults and when each major inspection is performed, *its cost* is recognised in the carrying amount of the item of property, plant and equipment *as a replacement* if the recognition criteria as per paragraph 7 are satisfied. However, in this regard, it may be noted that not all costs incurred during inspection or before inspection, for example, to make the asset ready for inspection can be capitalised as inspection costs; rather only those costs pertaining to performance of inspection activity e.g. fees paid to inspection authority to carry out inspection, costs of performing tests such as stress test to determine the strength of critical parts etc., can be capitalised. These costs are recognised as separate component of carrying amount of PPE and depreciated until the next inspection cycle as per the requirements of Ind AS 16 reproduced and explained in paragraph 14 below. For other costs incurred before or during inspection, it needs to be analysed whether these fulfil other requirements of Ind AS 16 for capitalisation, such as, replacement costs of components, etc.

*Cost of spare parts, stand-by equipment and servicing equipment:* Paragraph 8 of Ind AS 16 requires that items, such as, spare parts are recognised as an item of property, plant and equipment only if they meet the definition of property, plant and equipment and further for recognition as PPE, the conditions under paragraph 7 of Ind AS 16 are required to be fulfilled. Thus, if the definition of PPE and these conditions are fulfilled, the spare parts are recognised as a separate item of PPE and depreciated as per the requirements of Ind AS 16 reproduced and explained in paragraph 14 below.

As far as the recognition criteria under paragraph 7 of Ind AS 16 are concerned, the Committee notes that an item of expenditure 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.

The Committee further notes that paragraph 12 of Ind AS 16 requires that expenditure on repairs and maintenance, including replacement costs of small parts, consumables, etc. and cost of day-to-day servicing is charged to profit or loss as and when incurred.

12. In this context, the Committee notes that in the extant case, the querist has mentioned that the Company is mandatorily required to have registration under Indian Register of Shipping (IRS) for all its dredgers to operate in the oceans and to carry out dredging activities. Further, every dredger goes through a rigorous test to check the sea worthiness of the dredger and the dredger can be operated only when a certificate of fitness is provided by IRS. To obtain this certificate, the Company has to incur substantial amount of repair costs/overhaul costs, which are popularly known in the shipping industry as ‘Dry Dock Expenditure’. Irrespective of the age of the dredger, every dredger must go through this rigorous inspection process and

therefore, to ensure passing of dredgers through this inspection process, the Company incurs dry dock expenditure before every inspection.

From this, it appears that various types of costs/expenditures are being incurred by the Company in the context of 'dry dock expenditure' including repairs, replacements, inspection costs, and other costs in order to make dredgers ready for inspection, etc. In this regard, the Committee wishes to mention that not all expenses incurred during the dry-docking activity may necessarily meet the criteria for capitalisation under Ind AS 16. Ind AS 16 requires each item of cost or expenditure to be analysed so as to determine whether it can be capitalised as per the requirements of the Standard and does not stipulate that all expenditure incurred during a process or stage can be capitalised (for example, not all expenditure during construction stage can be capitalised). Therefore, the Company needs to analyse each expenditure individually to determine its nature and whether the same can be capitalised as part of the cost of PPE (dredgers in the extant case) as per the principles explained in paragraph 11 above. If any expenditure does not meet the criteria for capitalisation as per the principles explained in paragraph 11 above, such as the expenditure on repairs and maintenance covered in paragraph 12 of Ind AS 16 (including replacement costs of small parts, consumables, etc. and cost of day-to-day servicing), the same should be charged to profit or loss as and when incurred.

13. From the above discussion, the Committee notes that Ind AS 16 does not prohibit the capitalisation of subsequent expenditure in the carrying amount of PPE after the expiry of the useful life of the PPE. In other words, Ind AS 16 does not take into consideration the existing useful life of the item of PPE for capitalisation of subsequent expenditure; rather since Ind AS 16 defines useful life of an asset in terms of the asset's expected utility, it requires that the useful life to be reviewed if there is change in the expected utility of the asset. Accordingly, if costs or expenditure incurred during dry-docking activity in the extant case result into increase in the expected utility of the dredger, the useful life of the dredger should also be reviewed.

In this context, the Committee notes that the querist has mentioned that dry dock expenditure in the extant case results into increase in the expected utility of 4 of its dredgers (for which the query has been raised), whose useful life has already expired. Therefore, the useful life of these dredgers should also be reviewed. Further, since increase in useful life will lead to flow of future economic benefits to the Company, the recognition criteria as per paragraph 7 of Ind AS 16 (reproduced above) in the extant case can also be considered to be met and therefore, the expenditure incurred which leads to increase in the useful life in the extant case can be capitalised to the carrying amount of the dredgers, as per the requirements of Ind AS 16.

Furthermore, the Committee notes that as per the requirements of Ind AS 16 (paragraph 56(b)), useful life of an asset is determined considering the repair and maintenance programme for the asset. However, since in the extant case, the useful life of each of the 4 dredgers has expired despite presumably taking into account such repair and maintenance programme due to regular inspection activity (viz., dry-docking), the Company should consider reviewing its manner of determining the useful life of dredgers.

14. As regards depreciation of the expenditures incurred during dry-docking activity, which are recognised as part of an item of PPE/dredger as per the above-mentioned principles and requirements of Ind AS 16, the Committee notes the following requirements of Ind AS 16:

**“43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.**

- 44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.
- 45 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.
- 46 To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.
- 47 An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.”

From the above, the Committee notes that if a part or component of PPE has a useful life which is different from the useful life of the remainder of the PPE, it should be depreciated separately as per the above-reproduced requirements of Ind AS 16. Thus, the replacement costs and inspection costs as explained in paragraph 11 above that are capitalised as part of the cost of the dredger in the extant case, will be depreciated separately if those parts or costs have a different useful life than that of the dredger itself.

#### **D. Opinion**

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

- (i) and (ii) The appropriateness of the Company’s accounting treatment of capitalising dry dock expenditure of 4 of its dredgers, namely, VIII, XI, XII and XIV as separate component would depend upon whether various costs/expenditure incurred during dry-docking activity can be capitalised as part of the dredgers. Not all expenses incurred during the dry-docking activity may necessarily meet the criteria for capitalisation under Ind AS 16. The Company needs to analyse each expenditure individually to determine its nature and whether the same can be capitalised as part of the cost of dredgers in the extant case as per the principles and requirements of Ind AS 16. If any expenditure does not meet the criteria for capitalisation as per the principles explained in paragraphs 11-12 above, such as the expenditure on repairs and maintenance (including replacement costs of small parts, consumables, etc. and cost of day-to-day servicing), covered in paragraph 12 of Ind AS 16, the same should be charged to profit or loss as and when incurred. Further, these costs should

be depreciated as per the requirements of Ind AS 16, as explained in paragraph 14 above.

Furthermore, as explained in paragraph 13 above, Ind AS 16 does not prohibit the capitalisation of subsequent expenditure in the carrying amount of PPE after the expiry of the useful life of the PPE. In other words, Ind AS 16 does not take into consideration the existing useful life of the item of PPE for capitalisation of subsequent expenditure; rather since Ind AS 16 defines useful life of an asset in terms of the asset's expected utility, it requires that the useful life to be reviewed if there is change in the expected utility of the asset. Since dry dock expenditure in the extant case results into increase in the expected utility of 4 of its dredgers, the useful life of these dredgers should also be reviewed. Further, since increase in useful life will lead to flow of future economic benefits to the Company, the recognition criteria as per paragraph 7 of Ind AS 16 (reproduced above) in the extant case can also be considered to be met and therefore, the expenditure incurred which leads to increase in the useful life in the extant case can be capitalised to the carrying amount of the dredgers, as per the requirements of Ind AS 16.

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