

1. Classification of Bank Fixed Deposits held under Lien as Current or Non-Current Assets under Ind AS framework.

A. Facts of the Case

- The Company avails Bank Guarantee (BG) and Letter of Credit (LC) facilities from several banks to support its business operations. The Company's banking arrangements can be categorised into two distinct models:
 - *General Lien Arrangements:* Banks provide BG/LC facilities against a general lien on the Company's total deposits, with facility limits based on a percentage of deposits. No specific deposits are earmarked against individual BG/LC.
 - *Specific Deposit-backed Facilities:* Other banks provide BG/LC facilities against deposit of equivalent amounts, where specific fixed deposits are placed as margin money or security for individual guarantee or credit facilities.
- The Company maintains these deposits with varying maturity periods, predominantly structured with *original maturities of less than twelve months*, irrespective of whether they are subject to lien arrangements or held free of any encumbrance.

C&AG's Audit Observation:

- Bank balances amounting to ₹ 22,257.31 lakhs held as margin money and security deposits under lien against borrowing/bank guarantee/LC having claim end dates exceeding 12 months are not realisable by the Company within its operating cycle, and

therefore should be classified as non-current assets rather than current assets.

Company's contention:

- As per Schedule III to the Companies Act, 2013, bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets – Non-Current Assets'.
- All bank deposits in question, including those under lien, uniformly carry original maturity periods of *less than twelve months*.
- Therefore, their classification as 'Current Assets' in the balance sheet as of March 31, 2025, is consistent with the explicit requirements of Schedule III.

B. Query

- Whether bank fixed deposits with original maturity periods of less than twelve months as on the reporting date, but held under lien arrangements against bank guarantees, letters of credit, or borrowing facilities that extend beyond twelve months from the reporting date, should be classified as 'Current Assets' or 'Non-Current Assets' under Schedule III to the Companies Act, 2013.
- Whether the original contractual maturity period of the deposit should be the primary determining factor for current/non-current classification, or whether the period of the underlying lien arrangement (BG/LC/borrowing facility) should govern the classification, and
- The appropriate accounting treatment when deposits are held under general lien arrangements where specific linking to individual guarantees or facilities is not practically feasible.

C. Points considered by the Committee and Opinion

- The Committee notes that each asset *as at the reporting date* has to be assessed as current or non-current on the basis of the relevant criteria as per the definition of 'current asset' under Ind AS 1, 'Presentation of Financial Statements' and Division II of Schedule III to the Companies Act, 2013.
- The Committee further notes the requirements of Ind AS 7, 'Statement of Cash Flows' which states that the cash equivalents are short-term, highly liquid investments with maturity of normally three months or less from the date of acquisition and which are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.
- The Committee notes that the bank deposits are not contended by the querist or auditor as highly liquid investments with maturity of normally three months or less from the date of acquisition.
- Further, the Company does not seem to intend to hold these deposits for the purpose of meeting short-term cash requirements. Therefore, these deposits do not meet the aforesaid definition of cash equivalents.
- The Committee further notes that clause (c) of paragraph 66 of Ind AS 1 states that an entity shall classify an asset as current when it *expects to realise the asset within twelve months after the reporting period*.
- Thus, short-term bank deposits having the original maturity period of less than twelve months would generally qualify as current assets (since as on the reporting date, the maturity period will be less than 12 months).
- Now the next issue to be examined is whether such bank deposits held under lien arrangements (general or specific) against bank guarantees, letters of credit, or borrowing facilities that extend beyond twelve months from the reporting date can still be classified and presented as current assets.
- In this regard, the Committee notes that the definition of current asset signifies the importance of the expectation of the entity with regard to the asset's realisation, viz., conversion/exchange into cash or use in the settlement of liability at the reporting date.
- Thus, the classification of an asset should not be based solely on contractual maturity but should also consider the substance or economic reality regarding expectation of realisation at the reporting date.
- Thus, when there are restrictions on realisation of bank deposits and the nature and duration of restrictions are such that bank fixed deposit(s) is (are), in substance, not expected to be realised within twelve months from the reporting date, or where such deposit(s) is (are) required to be continued or renewed by the Company to support long-term BG/LC/borrowing arrangements, which make(s) the deposit(s) not expected to be realisable within twelve months from the reporting date, such deposit(s) should not be classified and presented as 'current asset', but should instead be classified as 'non-current asset'.
- The Committee further notes that Ind AS Schedule III requires bank balances other than cash and cash equivalents (which meet the definition of 'current asset') to be presented as 'financial assets' under 'current assets'.
- Further, it requires 'Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments' to be disclosed separately.
- The Guidance Note further explains these requirements and specifically requires that the disclosure regarding 'bank balances other than cash and cash equivalents' should include items such as balances with banks held as margin money or security against borrowings, guarantees, etc. and bank deposits with original maturity of more than three months but less than 12 months.
- Accordingly, the Committee is of the view that **bank deposits held (under general or specific lien arrangements) as margin money or security for individual guarantee or credit facilities (such as Letter of Credit) should be presented as 'financial assets' under 'current assets' with a separate disclosure for the same in the financial statements (including notes), provided such bank deposits despite the restrictions due to lien arrangements still meet the definition of 'current asset', as explained above.**

2. Accounting treatment of expenditure incurred on repair, recovery and reinstallation of damaged assets during construction phase, under Ind AS framework.

A. Facts of the Case

- A company is the crude oil and natural gas producer in India.
- The construction of production facilities for one of its offshore fields (abc-field) has been executed through Lump Sum Turnkey (LSTK) contracts.

- For development of the abc-field project, the Company placed a Notice of Award (NOA) to Consortium X (Contractor) for Subsea Umbilical, Risers and Flowlines (SURF) and Subsea Production Systems (SPS) works covering subsea installations for 34 wells.
- As part of these activities, critical subsea assets, viz., Subsea Distribution Unit (SDU-1234) and Associated Umbilical (UM-1234), forming part of the core subsea production network, were installed and proper installation was confirmed by the Third-Party Inspector (TPI) and Project Management Consultant (PMC).
- During a pre-lay survey for installation of Steel Tube Flying Leads (STFL), it was discovered that the installed SDU had toppled and separated from its foundation and the umbilical had been dragged and displaced.
- Subsequent investigation by PMC and on-board inspectors concluded that the disturbance was “most likely caused by the drilling rig anchor” during demobilisation, and not due to the Consortium X’s own operations.
- At the time of the incident, the subsea production system was incomplete and non-functional. First Oil from abc-field was achieved only after reinstatement of the subsea infrastructure.
- Consortium X requested for approval of a Change Order (increase in project cost) for recovery, repair and reinstallation of the displaced assets, which was approved by the Company’s Board.
- The work included recovery of displaced subsea assets, detailed inspection and assessment, repair and refurbishment, reinstallation and integration into the subsea production system, and testing and commissioning readiness activities.
- The querist has stated that these reinstatement works were critical for constructing and preparing the production system for First Oil. The related costs were categorised as rebuilding core production infrastructure during the construction phase, not as repairs of an operating asset or periodic maintenance, as the field had not yet been commissioned.
- Consortium X notified the Contractor’s All Risks (CAR) insurers of the subsea damages.
- The Company’s management approved acceptance of the Loss Adjuster’s recommended settlement amount and final insurer confirmation is awaited. Consortium X confirmed that any costs recovered through the CAR insurance policy would be passed on to the Company.
- The Company capitalised the expenditure as part of ‘Capital Work-in-Progress (CWIP)’, subsequently transferred to ‘Property, Plant and Equipment (PPE)’ upon commissioning, during financial year 2023-24, considering it to be directly attributable to bringing the production system to the condition necessary for its intended use under Ind AS 16.
- The Comptroller & Auditor General (C&AG) raised an audit observation that the cost incurred in recovery, repair and re-installation of damaged abc-field subsea assets had been capitalised in contravention to the principles of recognition of assets laid down in Ind AS 16. The Company should recognise the expenditure incurred as an abnormal cost or loss and expense it in the statement of profit and loss.
- *Company’s perspective:*
 - As per Guidance Note on Accounting for Oil and Gas Producing Activities, all expenditure incurred during the development phase which are directly attributable to bringing assets into the condition necessary for intended use must be capitalised. The reinstatement expenditure — though arising from a disruptive event — qualifies as capitalisable since it constitutes a necessary part of the development works that enabled the field to achieve First Oil.
 - The reinstatement expenditure clearly passes the ‘avoidance test’ i.e. without these works, the production system could not have reached its working condition.
 - The reinstatement works were required to restore SDU and umbilical systems to their specified coordinates and operating conditions, without which First Oil could not have been achieved. Until commissioning (‘First Oil’), all necessary costs to bring the asset to working condition should form part of capitalised cost.
 - The one-time subsea repair/reinstallation was not a routine maintenance activity but a construction-phase reinstatement necessary to complete the asset.
 - In the offshore operations, such repair and reinstallation costs are an expected and integral component of installation. They are factored into project execution norms globally and are not considered as abnormal or exceptional losses.

B. Query

- Whether the Company’s accounting treatment of capitalising expenditure incurred for reinstatement

of subsea assets during the construction phase is appropriate.

- Whether the expected insurance proceeds against capitalised cost incurred for reinstatement of subsea assets should be:
 - (a) Adjusted against the cost of the related asset (reduction in capitalised expenditure under Ind AS 16), or
 - (b) Recognised as separate income in profit and loss when virtually certain/received.

C. Points considered by the Committee and Opinion

- With regard to the issue raised on accounting treatment of expenditure incurred for reinstatement of damaged subsea assets during development phase of abc-field, the Committee notes that the Guidance Note on Accounting for Oil and Gas Producing Activities (for entities to whom Ind AS is applicable), issued by the ICAI refers to the accounting principles contained in Ind ASs (for example, Ind AS 16) to accounting for costs incurred on activities including development and production of oil and gas.
- In the context of damage occurred, the Committee notes from paragraph 66 of Ind AS 16 that impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.
- Further, paragraph 63 of Ind AS 16 requires an entity to apply Ind AS 36 to determine whether an item of PPE is impaired.
- Thus, in the extant case, **when the incident causing damage to the assets occurred, the Company should first assess the impairment as per the requirements of Ind AS 36 (even though the overall production facilities may not have been commissioned at that stage).**
- **Any impairment loss incurred should be recognised in profit or loss as per the requirements of Ind AS 36.**
- Furthermore, as per paragraph 66 (b) of Ind AS 16, **the Company should evaluate as to whether any asset or any component of asset of the previously capitalised asset is destroyed and consequently is no longer expected to generate future economic benefits; and therefore, whether any such asset or component of asset would require derecognition under paragraph 67 of Ind AS 16.**

- The Committee further notes from the Facts of the Case that the subsea assets were initially confirmed for proper installation by Third-Party Inspector and it is due to subsequent activities involving demobilisation of rig that the incident causing damage took place which necessitated reinstatement activities of sub-sea assets and incurrence of the reinstatement expenditure to restore the assets to their originally intended condition and location.

- Thus, such expenditure represents rectification of damage performed *subsequent to* installation of assets rather than expenditure incurred to complete an unfinished construction or development activity. Paragraph 10 of Ind AS requires that not only the initial costs of acquisition or construction of an asset but also costs incurred subsequent thereto to add, replace or service the asset needs to be included as cost of the asset. For such costs to be included as part of the cost of the asset, the measurement requirements of Ind AS 16, inter alia, prescribe that, only costs *directly attributable* to bringing the item of PPE to the location and condition necessary for it to be capable of operating in the manner intended by management should be capitalised as part of the cost of PPE.

- Furthermore, paragraph 22 of Ind AS 16, inter alia, states that while determining the cost of a self-constructed asset, the cost of abnormal amounts of wasted material, labour, or other resources incurred is not included in the cost of the asset.

- In this regard, the Committee is of the view that to determine what are abnormal costs requires application of judgement considering the overall facts and circumstances.

- Accordingly, the Committee is of the view that **accounting treatment of expenditure incurred for reinstatement of subsea assets during the development/construction phase shall also require exercise of judgement as to whether the reinstatement expenditure meets the recognition and measurement principles under Ind AS 16.**

For example, whether the expenditure qualifies as directly attributable cost in accordance with paragraph 16(b) of Ind AS 16 and whether the expenditure includes any element representing the cost of abnormal amounts of wasted material, labour or other resources (viz. abnormal costs), which cannot form part of the capitalised cost and must be recognised in profit or loss, as discussed above.

- The Committee is further of the view that such judgement should be exercised in the specific facts and circumstances and considering the principles, as discussed above; and based on such judgement,

it should be decided whether these expenditure or costs need to be capitalised (included in the costs of PPE) or recognised in the statement of profit and loss.

- With regard to the issue raised relating to accounting for expected insurance proceeds, the Committee notes from the Facts of the Case that insurance proceeds are in respect of damages or loss incurred on subsea assets.
- In this regard, the Committee notes from paragraphs 65 and 66 of Ind AS 16, that compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.
- Therefore, in the extant case, **the expected insurance proceeds should be recognised in profit or loss when it becomes receivable as per the requirements of Ind AS 16.**

3. Accounting treatment of restoration obligation on the project under the Service Concession Arrangement, under Ind AS framework.

A. Facts of the Case

- A company entered into a concession agreement with the President of India, represented through the Executive Director (Traffic-PPP), Ministry of Railways (MoR), Government of India.
- Under this Agreement, the Company was granted the authority to develop, finance, construct, operate, and maintain the project railway and to exercise and/or enjoy the rights, powers, benefits, privileges, authorisations and entitlements as set out in the agreement during the concession period.
- The concession period is set for 30 years from the date of commencement of commercial operations or until the Company achieves a Net Present Value (NPV) payback of 14% on its equity investment, whichever occurs first or such extended period as provided for in the agreement, unless terminated earlier.
- At the end of concession period, the Company shall be entitled to receive and MoR shall pay to the Company an amount equal to book value.
- The Operation and Maintenance of the project railway is being conducted by MoR through Western Railway (WR) and by its own resources under its right, which is co-terminus with the Concession Agreement, entered into between the MoR and the Company.

- As per Concession Agreement, there is an obligation on the Company to keep the Project Assets in a proper working condition, including making replacement in accordance with the standards laid down by MoR, of all Project Assets whose lives have expired. Such replacement shall be carried out by the Company either by itself or through MoR, and the costs of such replacements shall be borne by the Company.
- The Company has classified the assets arising out of concession arrangement as intangible assets and amortisation has been charged to the Statement of Profit and Loss over the period of concession.

Observations made by C&AG during audit of F.Y. 2023-24:

- The Company in the financial statements, has disclosed that at present, reliable estimate for restoration obligation is not available; therefore, provision for same is not provided in financial statements, the same will be provided in the year in which reliable estimate becomes available.
- The C&AG stated that the above note of the Company is not correct as it is not impossible to estimate the restoration obligation. Therefore, the Company should estimate the restoration obligation and necessary provisions should be made in the books of account.

Accounting treatment made in the financial statements of F.Y. 2024-25

- In compliance with the observation of C&AG on the financials for the year ending 31st March 2024, the Company estimated obligation for resurfacing of Rs. 14,200 lakhs to be incurred from F.Y. 2024-25 to the end of concession period. The amount of obligation has been apportioned over the period, i.e., each year, certain amount is charged to profit and loss considering time value of money and appropriation of expenses.
- In financial year 2024-25, the Company has charged an amount of Rs. 1,045.25 lakh in statement of profit and loss and balance amount shall be charged over the period as finance cost and resurfacing cost.

C&AG's Observation during audit of F.Y. 2024-25

- The Company had estimated a liability of Rs. 14,200 lakhs for replacement obligations in respect of major items of Project Railway which are likely to become due for replacement during the remaining concession period as per their codal lives.
- However, against this, the Company has made a provision of Rs. 1045.25 lakhs as on 31st March 2025. Thus, there was a short provision of Rs. 13,154.75 lakhs.

Management Reply to observations of C&AG

- The Company has estimated a total restoration liability of Rs. 14,200 lakhs over the remaining concession period. Of this, Rs. 1,045.25 lakhs has been recognised in the current year, with the balance to be systematically provided in the financial statements over the remaining concession period, towards replacement obligations in respect of major railway assets.
- This liability represents a *maintenance obligation*, accruing over the concession period from inception until the expected replacement of assets as their service potential is consumed.
- Since the consumption of assets occurs gradually, the obligation for restoration also accrues over time.
- Recognising the entire liability of Rs.14,200 lakhs in a single year would be inconsistent with the *matching concept* under Ind AS, as the liability accrues over the next 17 years and becomes payable only in the long term.

B. Query

- Whether the accounting treatment adopted by the Company — recognition of restoration obligation progressively over the period i.e. upto the date restoration obligation arises — is appropriate and in accordance with Ind AS, i.e., yearly allocation of expenses and finance cost in statement of profit and loss on a systematic basis.
- Whether the treatment suggested by the C&AG—recognising the entire obligation upfront in statement of profit and loss —is appropriate.

C. Points considered by the Committee and Opinion

- The Committee notes the requirements of Appendix D to Ind AS 115 which state that the separate services within a service concession arrangement, i.e., 'construction services', 'upgrade services' or 'operation services', must be disaggregated because each separate phase or element has its own distinct skills, requirements and risks and are accounted for accordingly.
- The Committee notes that as per the terms of concession agreement with Railways, the Company has been incurring costs on carrying out the replacement of various items of the Project Railway on expiry of their codal lives within the concession period (viz., restoration activities), however, the Company will not be reimbursed

separately by the grantor (viz., MoR) for these restoration activities.

- Also, such restoration activities have been considered as maintenance obligation, which do not include any upgrade element and are incurred to maintain the project assets in proper working condition.
- The Committee further notes that paragraph 21 of Appendix D requires an entity to recognise and measure its contractual obligations to maintain or restore infrastructure in accordance with Ind AS 37. Therefore, in the given case, the restoration activity will be accounted for as per Ind AS 37.
- In this regard, the Committee also notes the requirements of Ind AS 37 and extracts from Example 2 of Illustrative Examples (IE) to IFRIC 12, issued by IASB.
- The Committee notes that the Company's restoration obligation arises as a consequence of use of the project assets during the operating phase and in this regard, assumes that the service potential of these assets is consumed evenly in proportion to their useful life.
- **Since as per the requirements of Ind AS 37, the restoration obligation is to be measured at the best estimate of the expenditure required to settle the present obligation at each reporting date and since such best estimate of expenditure required to settle the obligation at any date is proportional to the use of the project assets by that date and which will increase proportionately by each passing year (considering the assumption), the provision to be recognised should be increased in annual increments by charge to profit or loss over the useful life of the respective project assets till their expected date of replacement/restoration.**
- **Also, the provision should be discounted to its present value in accordance with Ind AS 37 and the carrying amount of provision in each reporting period is increased to reflect the passage of time, which is to be recognised as borrowing or finance cost in the Statement of Profit and Loss.**
- Therefore, the Committee notes that the in-principle approach followed by the Company to build and recognise the provision over the concession period (considering the expected replacement of assets); rather than recognising the entire amount at the end of the reporting period, is as per the requirements of Ind AS 37.

(For complete text of the Opinions, please refer the link: <https://www.icai.org/post/eac-opinions-published-in-journal>)

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RACK the Brain

1. I am born from profit, yet I am not the gain,
I reach the owners but leave the business domain.
I reward the stake without selling a share,
What am I that turns profit into a shareholder's share?
2. I seek the gap where prices differ,
In two markets, I move much swifter.
I buy where low and sell where high,
And capture the difference as time passes by.
3. I come as a message, looking true and bright,
I lure you with urgency, a tempting sight.
I seek your secrets through a deceptive wish,
I am a trap dressed as trust.
4. I pool the funds where properties stand tall,
From offices to malls, I share them all.
I let you earn from real estate's might,
Without owning a building outright.
5. I am paid before the year has reached its end,
In measured instalments, my dues I send.
Based on income that you expect to earn,
Who am I, helping tax obligations turn?

Answer
August 2026

1. Digital Signature
2. Yield Farming
3. Decentralized Finance (DeFi)
4. Cryptographic Security
5. Smart Contract