



1. Presentation of Unbilled Revenue under Trade Receivable or Other Current Financial Assets.

A. Facts of the Case

- A company is in the business of city gas distribution and has 22 lakh customers in the Domestic Piped Natural Gas (PNG) segment to whom billing is being done.

Accounting Treatment done by the Company

- The Company follows bi-monthly meter reading and invoicing for its customers, and unbilled revenue is recognised for cases wherein readings were not taken at the end of the month as a part of the billing cycle of the Company.
- The Company recognises unbilled revenue for such cases based on previous billed quantity (i.e., gas supplied) and not on actual readings at the month-end.
- The actual sales are recognised when the meter readings are taken in the subsequent period and invoicing is done.
- The querist has stated that since the amount of unbilled revenue is an estimate based on previous billed quantity and also the fact that actual invoicing to customer has not been made, mere recognition of unbilled revenue based on matching principle of accounting *does not provide unconditional right to the Company to receive payment after a passage of time as the actual sales volume will differ from the provisional sale recognised at month end*

(which is the pre-condition to recognise trade receivable as per paragraph 108 of Ind AS 115). Accordingly, such unbilled revenue cannot be qualified as a trade receivable.

Auditor's observation

- The head 'Other Current Financial Assets' includes an amount on account of unbilled revenue. However, the unbilled revenue is the part of trade receivable and should be disclosed with ageing of trade receivable as per Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013.
- Thus, trade receivable is understated and other current financial assets is overstated by equal amount.

B. Query

- Whether such unbilled revenue forms part of 'Other Current Financial Assets' in terms of paragraphs 107 and 108 of Ind AS 115; or be included under the 'Trade Receivables'; or
- Any other presentation as EAC may consider appropriate in the case.

C. Points considered by the Committee and Opinion

- At the outset, the Committee presumes that the Company in the extant case has an unconditional right to consideration for performance completed (viz., gas supplied) even on termination of the contract by customer before billing to the customer.

In other words, if before billing, customer terminates the contract with the Company, the Company still has right to receive payment from the customer for the gas supplied.

- The Committee notes from the requirements of paragraph 107 of Ind AS 115 that if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.
- A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time (for example, the entity's future performance), whereas a receivable is an entity's right to consideration that is unconditional, i.e. only the passage of time is required before payment of that consideration is due.
- Thus, when an entity satisfies a performance obligation but does not have an unconditional right to consideration, for example, because it first needs to satisfy another performance obligation in the contract, it should recognise a contract asset, whereas an entity would recognise a receivable if it has a present right to consideration.
- The Committee further notes from BC325 of Basis for Conclusions (BC) to International Financial Reporting Standard (IFRS) 15, issued by IASB that the act of invoicing the customer for payment does not indicate whether the entity has an unconditional right to consideration and that the entity may have an unconditional right to consideration before it invoices (unbilled receivable) if only the passage of time is required before payment of that consideration is due.
- To the extent that gas supply has already been made (and no further performance by the Company is to be made), the Committee is of the view that the Company has, in substance, satisfied its performance obligation and earned the right to consideration for the goods transferred to the customers.
- Therefore, as per paragraph 108 of Ind AS 115 read with paragraph BC325 of IFRS 15, an unconditional right to consideration exists even before invoicing, and only the passage of time is required before payment becomes due.
- Accordingly, **in the extant case, even if the amount is unbilled at the reporting date, it will still qualify to be presented as a receivable (unbilled).**

- The Company has satisfied its performance obligation (supply of domestic gas), although the quantum of gas supplied has been estimated and not precisely determined.
- Since the uncertainty relates merely to the determination of the amount (and not with regard to performance risk), it does not affect the underlying right to receive consideration for the supply already made. In other words, even though the exact amount that the Company shall receive will be known at a later date, it does not affect the Company's right to consideration, as there is no uncertainty about the same.
- With regard to presentation of receivable as trade receivables, **the Committee is of the view that the unbilled receivables in the extant case shall be presented as 'Trade Receivables' under the head 'financial assets' under current or non-current assets, depending upon whether they meet the definition and criteria for classification as current or non-current assets.**
- **Further, unbilled receivables should be disclosed separately as per the requirements of Schedule III to the Companies Act, 2013.**

2. Accounting treatment of land and building components on purchase of Built-Up commercial space including undivided share in land, where future increase in Floor Area Ratio (FAR) or redevelopment rights are retained by Seller, under Ind AS framework.

A. Facts of the Case

- The Company acquired a built-up commercial office space in New Delhi from Ministry of Housing and Urban Affairs (MoHUA) pursuant to allotment letters issued by N Corporation allocating Units D-200, D-300 and D-400, Tower-D, along with Equivalent Car Parking Space (ECS).
- The Company has incurred total cost of Rs. 39,512.38 lakhs towards acquisition and development of the said commercial office space.
- As per the Allotment Letters, "Any future increase in floor area ratio (FAR) and redevelopment rights that may arise shall remain with the Government of India (GoI) and allottee (purchaser) has only rights of the purchased freehold specific Built-up area (BUA)."
- As per Agreement To Sale (ATS) executed between the Company (Buyer) and Land and Development

Office (L&DO)/MoUHA (Seller) for the said built-up commercial office floor, “*The Total Price of the Unit includes recovery of price of proportionate share in the Said Land, construction of not only the Unit but also the Common Areas ...*”.

- The querist has referred to the relevant clauses of Sale Deed, which guide that land is also part of commercial built-up space. Further, it clearly states, “*seller is entitled to and has good right and full power to convey and transfer by way of sale, the said Commercial Space and the said Land is hereby conveyed or intended so to unto and to the use of the Buyer in the manner aforesaid*”.
- It also establishes that for all taxes related to land from the date of allotment letter, buyer shall be responsible alongwith other statutory dues.
- The querist has mentioned that since allocation of price between land and building was not determinable from the allotment letter, the Company obtained a valuation report from an IBBI registered valuer for allocation of price paid between building and land.

Accounting treatment adopted by the Company

- The Company capitalised the total cost of Rs. 39,512.38 lakhs by allocating between land and building, based on a registered valuer’s report assessing the relative fair values at the acquisition date.
- The building component has been recognised as a depreciable asset, and depreciation has been charged on the same in accordance with the requirements of Indian Accounting Standard (Ind AS) 16.
- The land – Undivided Share (UDS) has been recognised as a non-depreciable asset, considering that land has an indefinite useful life.

Observation made by C&AG

- Office of CAG did not agree to the accounting treatment carried out by the Company.
- As per the terms of the Allotment letters, the allottee (purchaser) had only rights of the purchased freehold specific built-up area (BUA) while any future increase in FAR or redevelopment rights that may arise there shall remain with Government of India.
- Despite these terms, out of above value of the commercial space, the Company capitalised an amount of Rs. 36,646.55 lakhs under ‘Freehold Land’ instead of capitalising the entire amount of Rs. 37,098.55 lakhs under the head ‘Freehold Building’.

- This has resulted in an overstatement of Gross Value of ‘Freehold Land’, and understatement of Gross Value of ‘Freehold Building’ by Rs. 36,646.55 lakhs, and also understatement of depreciation on the office building and overstatement of profit before tax by Rs. 127.24 lakhs.

Points submitted by the Committee in its reply submitted to the office of CAG:

- The Company has obtained a valid ownership interest in the land attached to the allotted Built-up Area (BUA). The restriction on future Floor Area Ratio (FAR) or redevelopment rights held by the Government relates only to additional or incremental construction or development potential and does not affect the existing/present land interest already transferred with the Unit to the Company.
- ATS explicitly includes ‘recovery of price of proportionate share in Said Land’ within total price.
- The Company’s cost allocation methodology is based on a registered valuer’s relative fair value assessment which is robust and appropriately considers the FAR reservation while determining present land value.
- Valuer while carrying out valuation also considered the value of building for comparable cross-check; it estimated the building component with reference to Central Public Works Department (CPWD) Plinth area rates with required adjustments.

B. Query

- In light of the ATS stating that the total price includes ‘recovery of price of proportionate share in the said land’, and recitals confirming MoHUA/L&DO’s title to the land along with justification and explanations as given above, can the Company recognise a non-depreciable land component (UDS) appurtenant to the presently conveyed built-up area, notwithstanding the Allotment Letter’s reservation of future FAR/redevelopment rights with GoI?
- Where both (a) ATS demonstrates consideration includes a land UDS, and (b) an independent valuer has apportioned consideration based on relative fair values at the acquisition date (considering FAR restrictions), is such allocation compliant with Ind AS 16, paragraphs 58 and 43? Are any additional disclosures recommended?
- If accounting treatment followed by the Company is not appropriate, please suggest alternate treatment.

C. Points considered by the Committee and Opinion

- The Committee notes that ATS explicitly states that the total consideration paid by the Company towards built-up area includes recovery of the price of the proportionate share in the said land. Further, the terms of the arrangement state that the buyer assumes obligations in respect of land-related outgoings, including taxes, ground rent, and other statutory levies.
- The Committee notes that in the extant case, the Company has acquired the freehold rights in the unit/property (viz., a share in the building) together with proportionate undivided share or interest in the land.
- The Committee is of the view that the right to undivided interest represents a share of the land that corresponds to the unit/property specified in the contract.
- In the extant case, the Company has the present ability to use the unit/property (building as well as land) for the specified purpose as per terms agreed, such as for office or administrative use, and to obtain the economic benefits arising from such use (as per the terms of ATS).
- Further, the Company also assumes liabilities and obligations relating to the property, including those pertaining to the underlying land, such as payment of vacant land tax and other statutory dues.
- The Committee further notes from the clauses of Sale Deed that, upon purchase of the unit/property, the buyer has the right to sell the unit/property (including proportionate share in the land).
- The Committee is of the view that although the Company can sell or pledge the undivided proportionate share in the land only along with the built-up area constructed on it, however, that does not preclude the Company from having future economic benefits arising therefrom, for example, realisation of benefits from increase in land value on sale or pledge.
- Thus, the Company has the power or ability to obtain the future economic benefits flowing from the land although along with the built-up area, and it can also restrict or prevent the access of others to those benefits.
- Accordingly, the Committee is of the view that in the extant case, the Company has the present ability to direct the use of the unit (viz., proportionate share in the building and land), and also to obtain all the economic benefits arising from their existing use. Also, it can restrict or prevent others from directing its use or their access to such benefits.
- The Committee also wishes to mention that the retention of future increase in FAR or redevelopment rights by the seller pertains to a separate set of rights relating to potential future development in the complex where the unit/property exists and does not affect the Company's existing control over its share of building and land.
- Therefore, **the building along with land, corresponding to the unit(s) owned by the Company meets the definition of an asset as per the Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS), issued by the ICAI.**
- Further, the Committee notes that the same also satisfies the recognition criteria of property, plant and equipment under Ind AS 16 and accordingly qualifies for recognition as property, plant and equipment.
- The Committee notes that as per the requirements of Ind AS 16, 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 and consistent with this principle, an entity shall allocate the amount initially recognised in respect of an item of property, plant and equipment to its significant parts.
- Further, as per paragraph 58 of Ind AS 16, land and buildings are separable assets and are accounted for separately, even when they are acquired together, to facilitate component accounting for depreciation as, generally, land has an unlimited useful life and therefore is not depreciated, whereas buildings have a limited useful life and are depreciable assets.
- Considering these requirements, the Committee is of the view that since in the extant case, the value attributed to the proportionate share in the land (based on its fair value as determined by registered valuer) is significant in relation to the total cost of the unit/property and since the unit/property in the extant case is acquired for a composite consideration, **the Company should allocate the amount initially recognised in respect of unit/property to land and building on a reasonable and appropriate basis, such as on the basis of their relative fair values at the date of acquisition (which shall also consider restrictions regarding FAR and redevelopment rights).**

- The Company should appropriately disclose the basis of allocation of consideration between land and building, the key assumptions used in such allocation and the existence of restrictions on the title of the unit (if any), etc. in accordance with the disclosure requirements of Ind AS 16 and other standards, such as Ind AS 1, 'Presentation of Financial Statements'.
- Further, since the land (undivided) in the extant case has an unlimited useful life (as the proportionate land will continue to belong to or be owned by the Company), the same shall not be depreciated. However, impairment testing should be carried out in the extant case, in accordance with Ind AS 36, 'Impairment of Assets', especially considering any changes in restrictions on FAR or redevelopment rights.

3. Classification of certain standalone land parcels held to earn rentals as Right-of-Use Assets under Ind AS 116 vis-à-vis Investment Property under Ind AS 40.

A. Facts of the Case

- A Company, which is a joint venture of the Government of India (GoI) and the Government of National Capital Territory of Delhi (GNCTD), is entrusted with the construction, operation and maintenance of the rail-based Mass Rapid Transit System (MRTS)/metro for the Delhi/NCR region.
- The Company has further been mandated by the Ministry of Housing and Urban Affairs (MoHUA) to undertake value capture from Property Development initiatives for sustainable revenue generation for the Company.
- The land belonging to various Ministries/Departments as well as autonomous/statutory bodies/agencies of GoI/GNCTD, which is required for the project, including for Property Development purpose, is allotted to the Company on perpetual/99 years' lease basis.
- Pursuant to the mandate of MoHUA, the Company undertakes leasing/licensing of certain land parcels for commercial purposes as part of its structured non-fare revenue stream.
- Certain *standalone* land parcels i.e., parcels not forming part of station buildings and which are allotted to the Company under long-term/perpetual leases, have been allotted or licensed to third parties for commercial exploitation with the intention of earning rentals.
- As per the querist, these arrangements fall within the scope of Ind AS 116, 'Leases', which requires the recognition of a Right-of-Use (ROU) asset for leased assets. Accordingly, the ROU assets for these land parcels are presented within Property, Plant and Equipment (PP&E).
- Comptroller & Auditor General of India (C&AG) issued a provisional comment stating that 11 land parcels held by the Company for the purpose of earning rentals should have been classified as Investment Property in accordance with Ind AS 40, 'Investment Property'.
- In response, the Company submitted that these land parcels form part of a mandated non-fare revenue framework, are operationally and economically integrated with the metro system, and are therefore, correctly accounted for as Right-of-Use assets under Ind AS 116.
- The querist has stated that paragraph 7 of Ind AS 40 provides that an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property.
- The land parcels under consideration are located within the Metro Network Influence Zone, and their rental and commercial potential arise directly from metro commuter traffic, station connectivity, and the demand generated by the transport network.
- Their development is structured to complement metro infrastructure, and they do not generate independent cash inflows. Thus, as per the querist, they do not satisfy the independence-of-cash-flows criterion required for classification as investment property.
- The subject land parcels fall within the Transit-Oriented Development (TOD) zone in proposed modifications to Master Plan 2021 by Delhi Development Authority/Central Government, further evidencing their functional integration with the metro system rather than their existence as standalone investment assets.
- As per the Detailed Project Report (DPR) of metro projects, development and commercial utilisation of land and air space along/close to this transport system and its facilities are considered essential to supplement financial resources for construction and operation of the system.
- With construction of Metro corridor, demand of other consumer sectors is also expected to go up. Also, property development can be used for

financing of the project. It is expected that 5% of the financing can be achieved through property development.

- Therefore, as per the querist, while the land parcels are physically distinct or standalone, their classification should be viewed through the lens of their restricted use and integration into the metro assets and should be viewed constructively as forming part of the entire metro corridor.
- Accordingly, given that these parcels cannot be independently sold or leased under a finance lease due to the conditions of allotment of land to the Company, classification of such land parcels as 'Investment Property' would be incorrect.

B. Query

- Whether the current classification of aforesaid properties as 'Right-of-use assets' in the books of the Company is appropriate and compliant with applicable Ind AS requirements.
- If not, what should be the correct and Ind AS-compliant treatment for such properties?

C. Points considered by the Committee and Opinion

- At the outset, the Committee notes that 11 standalone land parcels allotted to the Company have been treated as assets held under lease. The Committee presumes that the Company has correctly identified the arrangement as lease in accordance with Ind AS 116, 'Leases'.
- From the Facts of the Case, the Committee notes that the Company holds the aforesaid land parcels under lease and the purpose of holding such land parcels is to earn rentals by subleasing them on operating lease basis/licensing (since as the per facts supplied by the querist, these parcels cannot be independently sold or leased under a finance lease due to the conditions of allotment of land to the Company).
- Thus, the standalone land parcels are the underlying assets in the 'head lease' as well as the sublease. The Company is a lessee in the head lease and the lessor in the sublease (i.e., the Company is an intermediate lessor).
- The Committee is of the view that for accounting purposes, the Company should classify the sublease as operating lease or finance lease as the case may be in accordance with Ind AS 116 by reference to the ROU asset arising from the head lease and not by reference to the land parcels themselves.

- In this regard, the Committee noting the requirements of paragraph B58 of Ind AS 116 and Basis for Conclusions paragraph BC179 of International Financial Reporting Standard (IFRS) 16, 'Leases', is of the view that **if the sublease in the extant case is assessed as finance lease, then, the ROU asset should be derecognised and net investment in the sublease should be recognised in accordance with Ind AS 116, in which case, Ind AS 40, 'Investment Property' is not applicable at all.** This may happen, for example, if the Company subleases the underlying asset for all or most of the remaining term of the head lease.

- In this regard, the Committee also notes that as per paragraph 9(e) of Ind AS 40, property that is leased to another entity under a finance lease is not an investment property.

- On the other hand, if the sublease is assessed as an operating lease, the Committee noting the requirements from Ind AS 40, 'Investment Property', Basis for Conclusions paragraphs B37 and B38 of International Accounting Standard (IAS) 40, 'Investment Property' and Basis for Conclusions paragraph BC179 of IFRS 16, is of the view that whether ROU asset should be classified as such or as investment property depends on whether it meets the definition of owner-occupied property or investment property.

- Further, reading from the requirements of Ind AS 40 and BC paragraphs of IAS 40, the Committee is of the view that **if an entity leases out a property (being land or a building or part of a building or both) on operating lease basis and also provides services to the lessee which are insignificant to the arrangement as a whole, the definition of investment property is met. However, there should be no intention of subsequently using the property as owner-occupied property.**

- **If there is such an intention (viz., to subsequently use the property as owner-occupied property), it means that the property is held for an additional purpose other than to earn rentals or for capital appreciation or both in which case the definition of investment property is not met.**

- **On the other hand, if the services provided are significant to the arrangement as a whole, the property does not meet the definition of investment property. The concept of significance involves judgement.**

- **From the above, the Committee is of the view that in the extant case, if the sublease is assessed as operating lease, then, the Company should examine whether it provides any services to lessees/licensees in connection with the arrangement.**

- Thus, if the Company provides ancillary services to the lessees/licensees which are insignificant to the arrangement as a whole (or does not provide any services to the lessees/licensees), the ROU asset should be classified as investment property, provided the underlying asset is not held with the intention of subsequent use as owner-occupied property, such as, use for administrative purposes or for enhancement of the MRTS project. If there is any such intention, the ROU asset should be classified as such and not as investment property.
- Further, if the services provided to lessees/licensees are significant to the arrangement as a whole, the ROU asset should be classified as such and not as investment property.

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

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