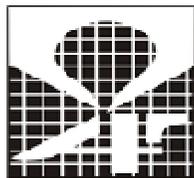


Pilot Study Project  
Ajmer Division and Workshop  
Compilation of Fixed Assets Register & Valuation Norms

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Indian Railways



**ICAI Accounting Research Foundation**

## Table of Contents

1.	<i>Definition of Fixed Assets</i> .....	3
2.	<i>Recognition of Fixed Assets</i> .....	4
3.	<i>Fixed Assets Register (FAR) Formats</i> .....	4
4.	<i>General Guidelines While Compiling Fixed Assets Register</i> .....	6
5.	<i>Composition of Fixed Assets Register</i> .....	7
6.	<i>Valuation Methodology for Assets</i> .....	8
6.1	<i>Valuation of Composite Fixed Assets</i> .....	8
6.2	<i>Valuation of Land in Indian Railways</i> .....	9
6.3	<i>General Guidelines for Valuation of Building</i> .....	10
6.4	<i>Capital Work-in-Progress</i> .....	10
6.5	<i>Valuation of Infrastructure Assets</i> .....	10
6.6	<i>Valuation of Intangible assets</i> .....	11
6.7	<i>General Valuation Principle for assets/other assets</i> .....	12
6.8	<i>Treatment of Borrowing Cost</i> .....	13
6.8	<i>Cost of Improvement</i> .....	14
6.9	<i>Valuation for the Purpose of Opening Balance Sheet</i> .....	14
6.10	<i>Flow chart for Valuation of Fixed Assets</i> .....	16
6.11	<i>Illustrations</i> .....	17

## COMPILATION OF FIXED ASSETS REGISTER (FAR)

Fixed Assets, being a significant portion of the total assets of any organization, the accounting thereof involves proper classification, segregation, recording and presentation for the purpose of reflecting the financial status and determining the level of efficiency of the organization in relation to the cost incurred on the assets.

It is essential to record all the assets in the books of accounts and make provision for depreciation not only in a commercial environment, but also for entities that do not operate for profit. Governments, particularly those that operate in a parliamentary democracy, are custodians of the money raised from the citizens and other sources. They have a duty to ensure that assets created out of such borrowings are looked after properly, so that they are not frittered away or used inefficiently. This duty of the Government is irrespective of whether the assets are put to use to generate profit or otherwise. Government Department/units in India are not following the accrual-based double entry accounting system for preparing its financial statements. Nevertheless, after realizing the importance of preparing financial statements under accrual-based principles, gradually these government units are converting their accounting system from the existing single-entry system to the double-entry system, and at the same time migrating from cash-based accounting to accrual-based accounting. The first step for any unit (including a Government unit) to convert to double entry accrual system of accounting is to prepare the Opening Balance Sheet.

The preparation of the opening balance sheet requires determination of balances of fixed assets and current assets, and long-term and short-term dues and liabilities payable to outsiders. An opening balance sheet is required to be prepared to draw the statement of affairs of the entity as on the date of the balance sheet and carrying the balances of all assets and liabilities to the next accounting year as the opening balances. Thus, after the preparation of the opening balance sheet, conversion from cash based accounting to accrual based accounting will take place.

Fixed Asset Register is one of the deliverables as per scope of work for the pilot project. The Fixed Assets Register will be prepared on the basis of the Accounting Policy document, which will be drafted later.

### 1. Definition of Fixed Assets

According to IFRS 2 issued by GASAB on property, plant & equipment, the “*property plant and equipment*’ are tangible assets that:

- a. *Are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purpose; and*
- b. *Are expected to be used during more than one reporting period.*

## 2. Recognition of Fixed Assets

An asset should be recognized in books of accounts when it is put to use and also when it is probable that the future economic benefits associated with the asset will flow to the organization and the cost of the asset to the organization can be measured reliably.

All the fixed assets that are in existence as at the end of the year i.e. before switching over to the accrual system of accounting shall have to be brought to the Fixed Assets Register. For the purpose of recognition of assets in books of accounts concept of control is important (refer note 1 as given below).

### Note 1

#### Concept of Control

The concept of control of an asset's economic benefit is the key issue in determining whether that asset should be reported in the financial statement of Indian Railways. This concept of control is what leads to non-owned assets like hire purchase assets, leasehold property to be recognized as assets. This concept is important because governments are required to maintain control over public property in the fiduciary capacity and hence any loss of control is not only a financial but also a fiduciary loss.

To determine whether Indian Railways should be reporting an asset, it is necessary to look to the indicators of control. According to AS-26, 'control' is identified when the enterprise has the power to obtain future economic benefits flowing from the underlying resources and also can restrict the access of others to those benefits.

*However it is not prescribed in the IGFRS or AS, the unit of measure for recognition, i.e., what constitute an item of property plant and equipment. Thus judgment is required in applying therecognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.*

Spare parts and servicing equipment are usually carried as inventory and recognized insurplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

## 3. Fixed Assets Register (FAR) Formats

After having a view of IR's assets, ICAI ARF Project Team categorized the fixed assets of Indian Railways and based upon categorization, designed the formats for collecting information relating to Fixed Assets for the purpose of compiling Fixed Assets Register (FAR). The formats so designed were submitted to IR officials for their comments/suggestions. These formats are primarily designed on the basis of FAR formats of NMAM and some other Government departments/organizations. Subsequently, IR officials

also provided their feedback suggestions which were also incorporated in these formats which were then re-submitted to IR officials and were subsequently approved by IR:

- i. **Land (FA-1)** – Details of all land belonging to IR will be given in this format. Land may be vacant or any temporary construction made on it. If land is taken on lease same should also indicated in relevant column. Where assets such as buildings, roads, bridges, etc., are constructed on land, all land should be shown under the head 'Land'.
- ii. **Building (FA-2)** – Details of all buildings such as office building, station buildings, workshop, etc., will be given in this format. Each building is required to be identified separately.
- iii. **Bridge/Tunnel/flyover/Subways (FA-3)** – Details of all bridges, tunnel, flyover, FOB is required to be given here.
- iv. **Roads/Streets (FA-4)** – Details of all roads will be given in this format. However detail of land on which road is constructed is to be given under the details of Land.
- v. **Railways Tracks (FA-5)**– Details of all Railway Track belonging to IR will be given in this format.
- vi. **Tracks Components (FA-5A)**–Track components are required to replace periodically. So details of those replace component whose useful life is more than one year, is required to be given in this format. It may be noted that details of those component which are lying in stores and not used on Railway Tracks will be given separately.
- vii. **Furniture & Fixtures (FA-6)** – Details of all furniture and fixtures will be given here. Furniture and fixtures includes:
  - a. Tables
  - b. Chairs
  - c. Almirah
  - d. Safe
  - e. Refrigerators
  - f. Invertors
  - g. Coolers, etc.
- viii. **Office Equipment (FA – 7)** – Office equipment includes the followings:
  - a. Scanner
  - b. Photostat machine
  - c. Projectors
  - d. Telecom equipment, etc.
- ix. **Vehicles (FA-8)** – Vehicles includes both heavy vehicles as well as light motor vehicles. Such as trucks, staff bus, cars, jeeps, two wheelers, etc., details of only those vehicles is required to given which is belonging to IR. However, if vehicles are taken on lease/hire, details are not required to be given.
- x. **Plant, Machinery & Equipment (FA-9)**– Plant, machinery & equipment includes any plant and machinery which is being directly used by IR in connection with

providing services. For example, machinery used in workshop for repair and maintenance of Loco/Coach/Wagons, machinery used for construction of tunnels, etc.

- xi. **Computers & Peripherals (FA-10)** – Computer and peripherals includes the followings:
  - a. Computers
  - b. Laptops
  - c. Printers
  - d. Networking equipment/servers, etc.
- xii. **Medical Equipment (FA-11)**–Equipment which are being specially used for themedical purposes. Details of all such equipment will be given in these formats such as equipment used in hospitals.
- xiii. **Loco/Coach/Wagon (FA-12)**– Details of all coaches, locos, wagons belonging to IR will be given in this format.
- xiv. **Capital Work-in-Progress (FA-13)**–Details of any civil construction or otherwise in progress and not completed till reporting date will be given in this format. However, it may be notes that any minor work such as white washing, flooring, etc., which is just a part of repair and maintenance is not a capital work.
- xv. **Plant, Machinery & Equipment (Signal) (FA-14)** – All equipment/machinery which are being used for signalling purpose will be mentioned in this format.
- xvi. **Plant, Machinery & Equipment (Telecom) (FA-15)**–All equipment/machinery which are being used for telecom purpose will be mentioned in this format.
- xvii. **Electric Equipment& Fittings (FA-16)** – Details of electrical equipment like power stations, DG sets, motor pump, etc., required to be given in this format.
- xviii. **Intangible Assets (FA-17)** – Intangible assets will also become part of fixed assets. Intangible assets include copyrights, trademarks, software, etc., Details of any such assets owned by IR will be given in this format.

#### 4. General Guidelineswhile Compiling Fixed Assets Register

The general guidelines/step to be taken for collecting information relating to fixed assets and compiling FAR are summarized as under:

- i. The first step is to identify all the assets. Identification of fixed assets includes listing of all fixed assets of Indian Railways including land, building, Railway Tracks, etc. IR's assets are spread over a wide geographical area. For example, Railways tracks are spread not only in India but also some foreign country too. So an effort is required by the IR for identifying all the assets belonging to them. The first step in identification of assets is to collect the information relating all the assets owned as on the date of the opening balance sheet, i.e., 31.03.2014. Identification of assets assumes importance as it would help the IR for compilation of the asset register for all types of assets held by them.
- ii. It is highly likely that due to paucity of records and documents there would be a need for physical verification of the actual items to be included in Fixed Assets Register

and the opening balance sheet. Indian Railways can either by itself (by forming a dedicated team) or by hiring an external agency carry out the physical verification of fixed assets.

- iii. As far as possible, details relating to assets should be collected section/department/station wise and then consolidated to give an overall picture for the entire Ajmer Division of IR.
- iv. The IR should form separate teams who would be responsible for collecting information in the prescribed format with in specific time frame.
- v. Indian Railways may also form a separate committee for monitoring this exercise.
- vi. The information collected should be cross verified with existing records maintained.
- vii. Only those assets whose ownership vests with Indian Railways, shall be considered for arriving at the list of assets of the IR.
- viii. Details of assets in respect of freehold/lease hold should be provided separately for each asset.

## 5. Composition of Fixed Assets Register

Fixed asset register mainly comprises of following things irrespective of type of assets:

- i. **Description:** in this column description of asset in prescribed format required to be mentioned. For example, in case of details of furniture, description will be it is table, chairs, almirah or safe, etc.
- ii. **Cost of acquisition/construction:** Cost of acquisition shall also include, in addition to the cost incurred in acquiring/constructing the said assets, cost incidental to the acquisition/construction. For example, in case of acquiring land, cost of registry would also be part of cost of acquisition.
- iii. **Cost of improvements:** Any cost incurred for improvement of assets, which results in increasing life or utility of asset, should be considered as an improvement cost.
- iv. **Date of acquisition:** The date of acquisition is the date on which the property was legally vested. For instance, in case of civil structure date of completion would be taken as date of acquisition while in case of other assets such as office equipment, furniture etc., and actual date of purchase may be taken as date of acquisition.
- v. **Mode of acquisition:** Mode of acquisition is required to explain. For example if asset is received as gift than its mode would be 'Gift', if it is constructed than its mode of acquisition is 'constructed,' etc.
- vi. **From whom acquired:** Simply mention the name of person/institution from whom the asset is purchased.
- vii. **Reference of available title documents:** It has to be ensured that all the relevant documents like title deeds, contracts, invoices, etc., are available. A reference of the same may also be provided in the formats in the prescribed column. If documents are not available then same is also required to be given.

- viii. **CodalLife of Assets/Normal useful life:** Useful life of assets is the period of time over which an asset is expected to be used by the entity. As determination of useful life of assets is not an easy job. It requires technical specification and experience as well. In, IR life of assets has been prescribed in the code/manuals. Life of assets is required to calculate the rate of depreciation.
- ix. **Fund Allocation Code:** In Indian Railways, there are many sources of funds for acquiring/constructing new assets,e.g., DRF, Capital fund, RSF, etc. Source of fund is required to be mentioned, out of which asset is created.
- x. **Rate of Depreciation:** Depreciation rate which is used for depreciating the asset. For example, if we are using straight line method (SLM) and the life of assets is 10 years with no salvage value, the rate of depreciation shall be 10%.
- xi. **Accumulated Depreciation:**Accumulated depreciation is depreciation from the date of acquisition to the balance sheet date.
- xii. **Net book value/Written down value:** This value will be derived after deducting accumulated depreciation from the cost of acquisition.
- xiii. **Remark:** If any other thing which is required to be given in respect of any asset then same may be mentioned in 'Remark'. For example – pending litigation in respect of any asset, any unauthorised use or encroachment on the assets, assets for condemnation, etc.

## 6. ValuationMethodology for Assets

Generally, as per the GAAP fixed assets shall be valued at 'historical cost', i.e., at the value originally paid for it, but in practice, these values may not be readily available. This is especially so in the case of older units of the IR where assets were acquired some 50 or even 100 years ago.Valuation of assets in such case is more difficult. There are many things which are relevant for the valuation of assets like expiry of useful life, availability of cost, etc. So it is advisable, that valuation of assets where cost is not available should be made according to methodology given in IGFRS 2 on property, Plant and Equipment. These IGFRS are issued by GASAB for the purpose of accrual accounting and are recommendatory in nature for all Government Department that are shifting from cash based system of accounting to accrual based accounting system.

### 6.1 Valuation of Composite Fixed Assets

In some cases, a single asset may comprise several components of different nature. Where each of these assets have been purchased/constructed separately, theirattributable cost, i.e., purchase price and incidental costs or the cost of construction, as the case may be, of each asset should be capitalized under the respective account head. However, if the composite asset has been acquired for a consolidated amount, such amount should be apportioned among the various components of the assets on a reasonable basis, i.e., in the proportion to their respective market prices on the date of acquisition.

## 6.2 Valuation of Land in Indian Railways

All the land under the ownership or permissive possession of the IR (like land taken on perpetual lease), received from other Government agencies, shall form part of the opening Balance Sheet;

- i. All land will be recorded at the purchase price paid/payable and other incidental costs such as registration charges incurred to bring the asset to its present condition. Original cost of any improvement to land such as land development and land filling shall be capitalized as part of the cost of the land forming part of approved capital project.
- ii. In case where the original documents are not available, valuation can be done on the basis of value mentioned in the records of Land Revenue Department or on the basis of transaction value of a similar plot in the similar area around the estimated year of transaction.
- iii. Leasehold lands acquired by the IR are taken as a part of assets at a total value payable as lease charges over the entire lease period and amortized/charged equally over the lease period. Initial premium paid should be capitalized and amortized/charged over the lease period. However, annual lease charges/ground rent paid after capitalization should be treated as revenue expenditure.
- iv. If any land is acquired through compulsory acquisition, then same will be recorded at the total compensation paid/payable for the acquisition of the land. If the amount of compensation were in dispute, then the amount that will be recorded would be based on orders passed by the competent authorities. The extra amount, if determinable that may be payable at a later stage, will be shown as contingent liabilities and will be added to the cost of land when it is finally determined to the previous owner.
- v. If ownership of the any land has been transferred to the Indian Railways free of cost from Government/individuals or has been donated to the IR, then such lands would be recorded at nominal value of Re. 1/-. Any development work done on that land should be capitalized. However, nominal value of Re. 1/- is to be shown separately in the value column of the register.
- vi. Where the ownership of the land has not been transferred in favour of the IR, but the land is in the permissive possession of the IR, such lands should be included in the Register of Land with Re. 1/- as its value. However, there should be a clear mention in the Register that in case the Government takes back the land at any point of time in future, reversal of entry shall be made in the Register of Lands. Cost of developing such lands, if any, should be charged to revenue at the time of giving back the possession of land.
- vii. Where consideration has been paid by the IR but the ownership of the land has not been transferred in favour of the IR and the land is in the permissive possession of the IR, such lands should be included in the Register of Land with the cost of consideration as its value with a note in the 'Notes to Accounts' in the financial statements.

- viii. If IR has purchased land from the government grants, then the cost of the land will be shown in the financial accounts at the net value i.e. cost paid/payable less grant received/receivable from the government.

### 6.3 General Guidelines for Valuation of Building

Building also consist major portion of fixed assets. Generally, Building includes the following structures:

- i. Residential buildings
- ii. Commercial buildings including office buildings
- iii. Rest house, etc.

Apart from the general valuation principle applicable for assets, following specific norms with respect to valuation of buildings may also be followed:

- i. If building is purchased, then it should be valued at its purchase price and all other incidental costs such as registration charges and other cost incurred to bring the building to its present location and condition.
- ii. If the building has been constructed by the IR, then the total cost of the construction will become part of its cost.
- iii. If any grant whether directly or indirectly has been received by the IR for the Construction or purchase of the building, then the cost of the building will be taken at net amount, i.e., amount spent on the construction or purchase less the grant received/receivable.

### 6.4 Capital Work-in-Progress

Capital work-in-progress (CWIP) is also a major category of Fixed Assets. This includes cost of constructing fixed assets before construction is substantially complete. The identification of an item of construction as CWIP means that the item is intended to be capitalized once it is complete. Following should also be kept in mind:

- i. CWIP is not recorded in any asset register. However, a separate CWIP register is maintained to record progressive bills for construction. The total expenditure on Capital Assets which are in the process of construction or near completion should be accounted for under the head CWIP. CWIP is valued at the amount of money spent and paid plus the amount of bills passed but not yet paid. However, upon completion asset is transferred to its respective head of account.
- ii. No depreciation is charged on CWIP since the asset has not been put to use.
- iii. Asset should be transferred from CWIP to fixed asset register, once asset is complete and put to use. It is advisable to review CWIP register regularly for such items.

### 6.5 Valuation of Infrastructure Assets

Infrastructure assets are those assets with the characteristics of being, a part of a system or network, specialized in nature and do not have alternative uses, immovable, and subject to constraints on disposal. In other words, they may also be defined as the assets associated with and generally arise from Government activities and are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater

number of years than most capital assets. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered as infrastructure assets.

The details of these infrastructure assets may be made available from the records maintained generally by the relevant department. The initial capitalization amount of the infrastructure assets should be based on historical cost. If determining the actual historical cost of these infrastructure assets is not practical because of various reasons such as inadequate records available, it should be recorded at the estimated historical cost for major general infrastructure assets.

There may be following infrastructure assets in Indian Railways:

- i. Roads
- ii. Flyover
- iii. Subways
- iv. Tunnels
- v. Railways Tracks, etc.

#### **Norms for Valuation of Infrastructure Assets**

- i. All the infrastructure assets which are under the ownership and permissive possession of Indian Railways shall be accounted for.
- ii. All the infrastructure assets should be recorded at historical cost. The cost of construction of these assets should include such items as cost of materials, labour costs and construction overheads.
- iii. If it is not possible to calculate the historical cost, then IR may estimate the current standard cost of a similar asset and deflating this cost through the use of Cost Inflation Index (CII) till the acquisition year to calculate historical cost.
- iv. Land pertaining to Roads and Pavements, Bridges, Tracks, and Tunnel, etc., including the cost of development of land should be booked under 'Land'.
- v. If both the cost and date of construction/purchase are available then asset should be valued at original cost.
- vi. If neither the cost nor the date of construction/purchase of the asset is available then the valuation of the asset shall be taken at Re. 1/-, the same being considered as the residual value.
- vii. However, if the cost is not available/ascertainable but the date of construction is available and if the asset has outlived its estimated useful life then it shall be valued at Re. 1/-. The estimated life of the asset shall be calculated by the technically qualified engineers.

#### **6.6 Valuation of Intangible Assets**

AS -26 describes "An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for

*administrative purposes*". Intangible assets include software, patents, copy rights, goodwill, etc.

- i. The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use.
- ii. However, if intangible assets is purchased then the cost of an intangible asset comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use. Directly attributable expenditure includes, for example, professional fees for legal services. Any trade discounts and rebates are deducted in arriving at the cost.
- iii. If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.

#### **6.7 General Valuation Principle for Assets/other Assets**

Following are the general valuation principle which will equally applicable for all assets:

- i. Every asset initially be measured at its cost (Historical Value) i.e., cost of acquisition. Following will also become the part of cost of the asset:
  - a. Cost of acquisition includes its purchase price, any import duties and non-refundable purchase taxes. However, any trade discounts and rebates will be deducted;
  - 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;
  - d. Costs of site preparation;
  - e. Initial delivery and handling costs;
  - f. Installation and assembly costs; and
  - g. Professional fees directly attributable to the asset.

However, following will not become the part of cost:

- a. Costs of introducing a new product or service (including costs of advertising and promotional activities);
- b. Costs of conducting business in a new location or with a new class of customers.
- c. Administration and other general overhead costs.

- ii. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition;(refer note2 given below).
- iii. Where determination of cost or fair value of any asset is difficult due to first time recognition under migration to accrual accounting, such assets should be value at nominal value i.e. Re. 1/- (refer note 3given below).
- iv. An asset may not have a determinable cost because of inadequate or non-existent record. For example, an historic building of national significance may have been acquired several hundred years ago and no record of its acquisition cost may be available. Similarly, an entity may have only recently adopted accrual accounting, prior to which it did not maintain any records of assets. Where an asset does not have a determinable cost, its fair value should be established as at the first reporting date it is recognized in the financial statements as an asset. If the fair value is difficult to determine, a nominal value of Re. 1/- may be taken for financial statements' purposes.

**Note 2****Fair Market Value**

As per AS-10, Fair Market Value is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

**Note 3****The rationale of valuation at Re. 1/-**

It may appear that a Re.1/- valuation is of no significance in the overall fixed asset block of the Indian Railways which may run into crores. Hence, it would perhaps make no difference if the asset was valued at NIL. This is erroneous. The reason for valuing assets at Re.1/- is to ensure that the asset is identified and tracked in the fixed asset system. Non-recognition of the asset would not allow the asset to appear in the Fixed Asset Register.

Hence, Indian Railways should particularly pay attention to the transaction of assets which are valued at Re.1/- for technical reasons, but may be worth more than many other assets.

**6.8 Treatment of Borrowing Cost**

As per Accounting Standard 16, issued by ICAI "Borrowing Costs are interest and other cost incurred by an enterprise in connection with the borrowing of funds". It may include:

- a. interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- b. amortization of discounts or premiums relating to borrowings;
- c. amortization of ancillary cost incurred in connection with arrangement of borrowing;

- d. Finance charge incurred in connection of assets acquired under the financial lease or other similar arrangements; and
- e. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing cost that is directly attributable to the acquisition, construction or production of a *qualifying asset* should be capitalized as a part of cost of that asset. Where qualifying assets is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As per AS -16 issued by ICAI on 'Borrowing Cost' it is specified that a time period of 12 months is a substantial period of time unless shorter time period can be justified on the basis of facts and circumstances of the case.

The general test for determining whether a loan can be identified with an asset is to ask the question, "Would these borrowing costs have been avoided if the outlays on the qualifying asset had not been made?" If yes, then the borrowing cost can be capitalized, else not.

Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted, and expensed. Capitalization of borrowing costs should cease when substantially all activities necessary to prepare the asset for its intended use or sale are complete.

*However it may be noted that the capitalization of interest cost is applicable only for new assets being developed/constructed by Indian Railways. The principle of 'Capitalization of borrowing cost' should not be applied for valuation of existing assets for the purpose of preparing the First Balance Sheet.*

## 6.8 Cost of Improvement

Any cost incurred for improvement of assets, which results in increasing the life or the utility of the asset, should be considered as an improvement cost. Expenses of a normal and routine nature incurred for the repairs and maintenance of assets should not be considered as an improvement cost. For example, In case of Vehicle, normal periodical services for smooth running of vehicle will be treated as cost of improvement. However, if engine or chassis is replaced which results in increasing the life of vehicle will be treated as cost of improvement.

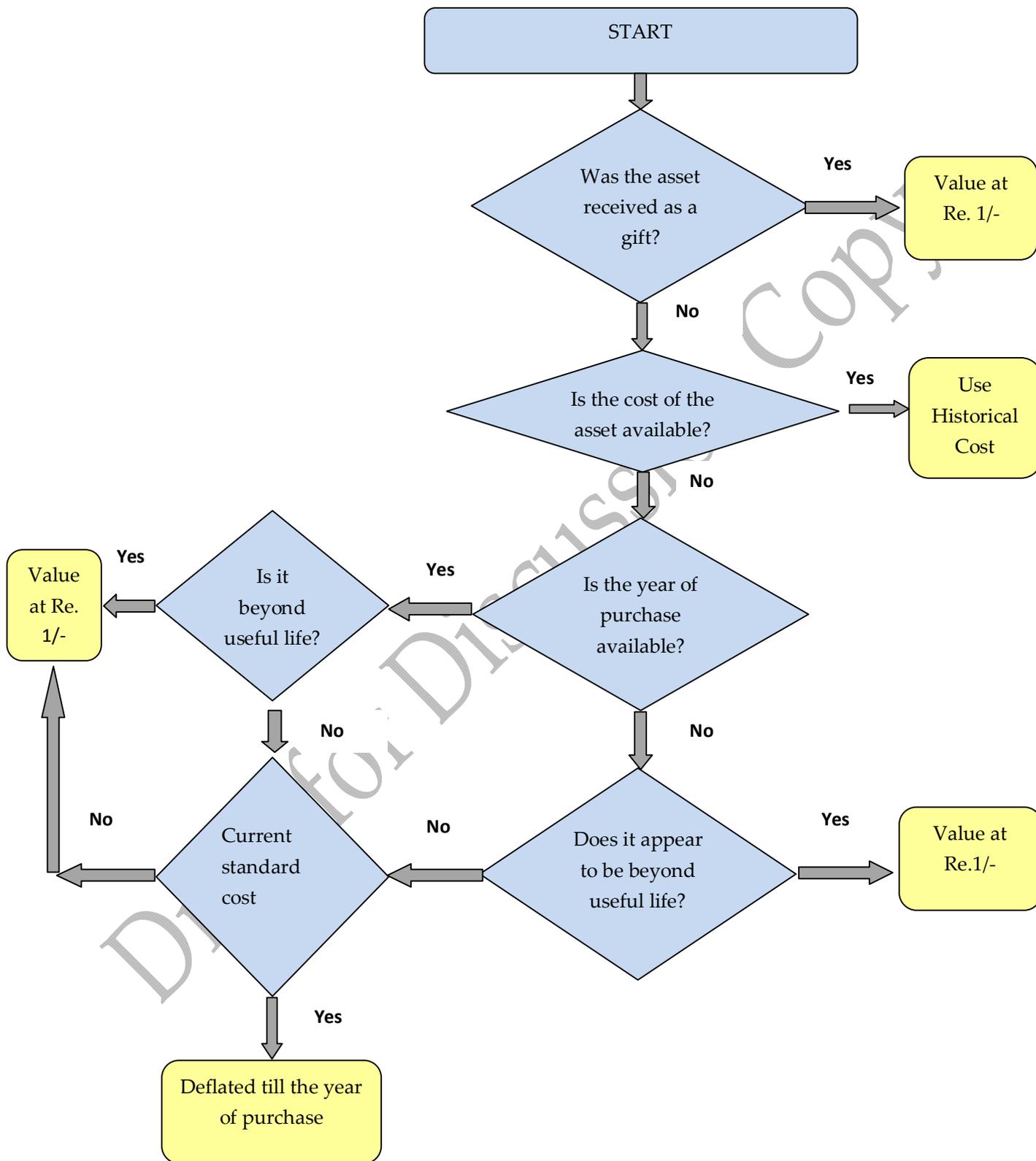
## 6.9 Valuation for the Purpose of Opening Balance Sheet

When the fixed assets are valued for the first time, there is a possibility that some or all the data required for arriving at the original cost and the age of fixed asset is not available. The following gives the methodology for valuing the fixed asset for various scenarios:

S.No	Scenario	Basis of Valuation
1	If both the cost and date of purchase/construction is available/ascertainable	Original Cost, i.e., historical cost
2	If cost is not available /unascertainable but the date of construction/purchase is available	i. In case of Land, where the original documents are not available, valuation can be ascertained from relevant records of the Land Revenue Department or transaction value of a similar plot in the similar area around the estimated year of

S.No	Scenario	Basis of Valuation
		<p>transaction;</p> <p>ii. If normal useful life of assets is expired, then it will be valued at Re. 1/-;</p> <p>iii. For Assets that have not outlived their useful life, valuation shall be done based on current standard cost (CSC). In order to reflect the cost of the asset in the year in which it was purchases/ constructed, the CSC will need to be deflated by an appropriate inflation index (Cost inflation index issued by CBDT, refer annexure I) to give the Deflated Standard Cost (DSC) of the asset.</p>
3	If date of purchase is not ascertainable	The assets valuation will have to be done on a case by case basis after taking into account the condition and obsolescence factor. Indian Railways may use specialist valuers to assess the value of such assets in such cases.
4	In case neither the cost nor the date of purchase/ construction is available	Valuation will be at Re. 1/-, the same being considered as the residual value.
5	If asset received as a gift	If evidence exists, or it is known that an asset was received by the Indian Railways as a gift, i.e., without any consideration being paid, it should be recognized at Re.1/-. This is in line with the basic policy of historical cost reporting i.e. to report an asset at the consideration paid for it.

6.10 Flow chart for Valuation of Fixed Assets



## 6.11 illustrations

The following example illustrates computation of actual cost in various scenarios, computation of depreciation and arriving at the written down value.

### Case 1 – Where Cost of Acquisition is Available

Actual cost of acquisition refers to the cost paid for acquiring the asset and any capital expenditure incurred after its acquisition. For example, let us assume that the construction of an Office Building was completed on 30<sup>th</sup> June, 1995. The date of capitalization therefore shall be 30<sup>th</sup> June 1995. On verification of the relevant documents and records, it was found that the total cost of construction was Rs.20,00,000/- and no major improvement was carried out in the later years.

The depreciation shall be computed as given below

Date of Capitalization	-	30 <sup>th</sup> June 1995
Cost of construction (A)	-	Rs.20,00,000/-
Rate of Depreciation (assume) <sup>1</sup> (B)	-	1.00%
Depreciation Per Year i.e. 1995-96 (C) = (A) x (B)	-	Rs.20,000/-
Number of Years asset in use till March 2014 (D)	-	19 Years
Depreciation till March 2014 (E) = (C) x (D)	-	Rs. 3,80,000/-
Written Down Value as on 31 <sup>st</sup> March 2014 (A) – (E)	-	Rs. 16,20,000/-

### Case 2 – When actual cost/cost of acquisition is not ascertainable

Assuming in the above example, the actual cost of acquisition is not available; the cost of acquisition shall be computed in the following manner.

ó The cost of acquisition shall be done on the basis current standard cost and then it will be deflated till year in which the asset is constructed. Let us assume current standard cost is Rs. 25,00,000<sup>2</sup>

a. Current standard cost	Rs. 25,00,000/-
b. CII (refer annexure I) for 1995-96	281
c. CII for 2013-14	939

<sup>1</sup>Depreciation rate is taken on assumption basis. Detailed depreciation policy for the Indian Railways will be drafted later.

<sup>2</sup>Estimated current cost as on 31.03.2014 at which this building can be purchased or constructed.

d. Cost of Asset shall be computed using the formula -

(Index of the Year in which the asset is Constructed x Current standard cost)

Index for the current financial year

Therefore the cost arrived at as per the method above, in this case, shall be

$$\text{Cost of Building} = \frac{281 \times 2500000}{939} = \text{Rs. } 7,48,136/-$$

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**Cost Inflation Index (CII) Number From 1981-82 to 2014-2015**

<i>S. No.</i>	<i>Financial Year</i>	<i>Index No.</i>
1	1981-82	100
2	1982-83	109
3	1983-84	116
4	1984-85	125
5	1985-86	133
6	1986-87	140
7	1987-88	150
8	1988-89	161
9	1989-90	172
10	1990-91	182
11	1991-92	199
12	1992-93	223
13	1993-94	244
14	1994-95	259
15	1995-96	281
16	1996-97	305
17	1997-98	331
18	1998-99	351
19	1999-00	389
20	2000-01	406
21	2001-02	426
22	2002-03	447
23	2003-04	463
24	2004-05	480
25	2005-06	497
26	2006-07	519
27	2007-08	551
28	2008-09	582
29	2009-10	632
30	2010-11	711
31	2011-12	785
32	2012-13	852
33	2013-14	939
34	2014-15	1024