

THE FOOD CORPORATION OF INDIA
HEAD QUARTERS : NEW DELHI

No. Accts/14(1)/94

DT : 7.11.1994

CIRCULAR NO. 665/ACCTS

Sub.: CAPITAL OR REVENUE EXPENDITURE – ACCOUNTAL THEREOF –
REG.

Attention is invited to Headquarters Circular Nos. 649/Accts. dated 9.2.94, 650/Accts. dated 9.2.94, 658/Accts dated 6.6.94, 659/Accts.dated 10.6.94, 662/Accts. dated 21.7./2.8.94 and 663/Accts dated 25.7.94 regarding allocation of expenditure between capital and revenue. In order to maintain uniformity in the allocation of expenditure between capital and revenue, instructions issued vide above Circulars be followed.

In this regard the guidelines on accounting standards on fixed assets issued by the Institute of Chartered Accountants of India and Legal decisions given by the Hon'ble Courts were conveyed vide above referred Circulars from time to time. Recently, the decision taken by Gujarat High Court in the case of additional CIT Vs Desai Bros. 108 ITR-14, published in the economic times, New Delhi dated 10.10.94 extract of which is produced below for guidance and correct accountal of expenditure under Capital or Revenue.

A gas company has started converting petrol engines into gas engines and is supplying gas to vehicles. The conversion cost from petrol to gas is roughly Rs. 25,000/-. Will this cost be allowed as a revenue expenditure and will the cost of gas cylinder be allowed as 100% depreciation.

It is an established law that if some old parts are replaced and which do not bring any new asset of enduring nature, then the expenditure will be allowed as revenue expenditure.

The Gujarat High Court in this case held that replacement of petrol engine by diesel engine constitutes repair and the expenditure does not bring into existence a new asset. The cost of cylinder to be installed will be eligible for 100% depreciation as per section 32 of the Income Tax Act, 1961.

It is once again reiterated that instructions issued may be followed scrupulously by all the accounting units to avoid adverse comments from Statutory/Govt. Auditors in future.

Sd/-
(A.K. CHAKRABORTY)
JT. MANAGER (ACCTS.)