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**Understanding the Concept of  
Cost Incurred Under RERA  
(Part – 13 of RERA Series)**

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# UNDERSTANDING THE CONCEPT OF COST INCURRED UNDER RERA

(PART - XIII OF RERA SERIES)

**R**ERA is a transformational statute, that aims in achieving Transparency, accountability, responsibility, standardisation, professionalism, symmetry of information amongst the stakeholders of the industry.

Stakeholders include Government Agencies, Promoters of the business (Landowner or builders or developers), Tax Departments, Financial Institutions, Professionals, statutory bodies, professionals, end-users. The RERA Act has an inbuilt mechanism to achieve its objectives through regulation and development activities. Respective stakeholders play a vital role in their area of business/practice/work.

In the past 5 years (since the implementation of RERA), market/industry/stakeholders have accepted and strived towards achieving the real intent and objectives of RERA. However, RERA being the new statute, prone to the interpretation of the readers, professionals, stakeholders. The court's judgments may resolve those differences.

RERA opens the door to new opportunities and streams, enabling the creation of new ideas, thoughts, and services. It generates a competitive advantage for the industry players by being able to enhance the speed, quality of the delivery of the projects.

Financial management is the hallmark and mandatory compliance under the RERA Act. To achieve this, the highest importance and recognition are given to the practicing professionals. Such practicing professionals include Architect, Engineer and Chartered Accountants, with the involvement of these professionals, the promoter shall utilize the money realised from the allottees in the project.

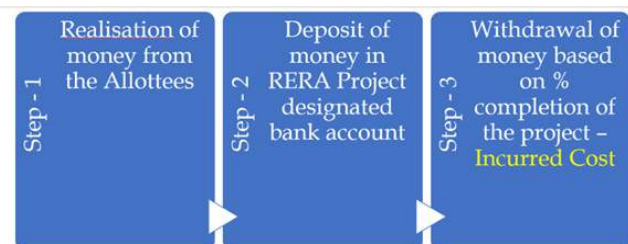
Let us understand the provisions and process mandated under RERA Act –

Section 4(2)(L)(D) - that seventy percent of the amounts realised for the real estate project from the allottees, from time to time, shall be deposited in a separate account to be maintained in a scheduled bank to cover the cost of construction and the land cost and shall be used only for that purpose:

Provided that the promoter shall withdraw the amounts from the separate account, to cover the cost of the project, in proportion to the percentage of completion of the project:

Provided further that the amounts from the separate account shall be withdrawn by the promoter after it is certified by an engineer, an architect and a chartered Accountant in practice that the withdrawal is in proportion to the percentage of completion of the project:

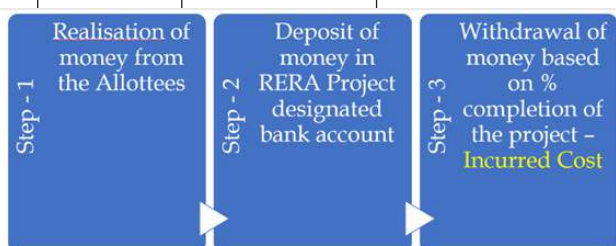
Provided also that the promoter shall get his accounts audited within six months after the end of every financial year by a Chartered Accountant in practice, and shall produce a statement of accounts duly certified and signed by such Chartered Accountant and it shall be verified during the audit that the amounts collected for a particular project have been utilised for the project and the withdrawal has been in compliance with the proportion to the percentage of completion of the project.



Sl No	Act/Rules Reference	Details	Provisions of RERA
1	Section 3(1)	When to Collect money	Only After Registration of Project with RERA



Sl No	Act/Rules Reference	Details	Provisions of RERA
2	Section 13 and K-RERA Rule 8A	How to Collect the money from the allottees	In Accordance with the agreement for Sale entered with the Allottees
3	Section 4(2)(l)(D)	Having collected the money, where to deposit	RERA project designated bank account opened in Schedule bank
4	Section 4(2)(l)(D)	How much money to be deposited into the RERA project designated bank account	(minimum) 70 % of realisation from the allottees
5	Section 4(2)(l)(D) – proviso 1	When to withdraw money from the project designated bank account	After having completed the development work in the project
6	Section 4(2)(l)(D) – proviso 2	How much to withdraw money	Based on proportion to the percentage of completion of project and having obtained the certificates of three



1. Respective State RERA Authorities have notified the professional certificate formats. Promoters of the project shall obtain these certificates from the professionals from time to time, prior to withdrawal of money from the RERA Project designated bank account.
2. The notified chartered accountant's certificate format is having the following columns –

Sl No	Details	Estimated Cost	Incurred Cost
1	Land Cost	1000	250

2	Construction/ Development Cost	1500	350
3	TOTAL Cost (1+2) and Total Incurred Costs	2500	600

**The estimated cost of real estate project** – Section 2(v) of the RERA Act defines - Estimated cost of a real estate project means the total cost involved in developing the real estate project and includes land cost, taxes, cess, development and other charges.

- i. **Incurred cost** – is neither defined in RERA Act nor in Rules. in absence of a definition or method of calculating Incurred cost, it is important to the promoters and for Chartered Accountants to know the concept of Incurred Cost while issuing certificates under RERA. If so, what is incurred cost for the purpose of RERA, let us deliberate –
  1. Is cash outflow be considered as incurred cost? or
  2. Can we assume accrued / accrual costs are considered incurred Costs?
  3. If not, is any other meaning or definition to this?

we interacted with various professionals and tried searching in google and in other accounting databases – few of them are as below and in my opinion thereon against each -

Sl No	Outcome of Search	Opinion
1	Incurred expenses refer to fees that have been charged to a business but have not yet been paid by the company Since these charges will be paid in the future, they're also considered accrued expenses until they are paid off. Any time a business makes a purchase but has not paid for it yet is an incurred expense	Like an accrued expense
2	An incurred cost is a cost arising from the consumption of an asset or service, or from a loss that has been sustained – source - <a href="https://www.accountingtools.com/">https://www.accountingtools.com/</a>	

Sl No	Outcome of Search	Opinion
3	Incurred cost in accrual accounting refers to the expense of the company when an asset is consumed, and the company becomes liable for and may include direct, indirect, production, operating expenses that are incurred for running the business operations of the company. It also includes all the prior period expenses, i.e., costs incurred before the company comes into existence. Incurred Costs are an expense for the company and are recorded in the debit side of the profit & loss account – source -	accrual accounting
4	All Cash out flow / money paid for the project – land and development	Means cash basis of accounting

By revisit of objectives of RERA, provision of law and understanding the Pre-RERA and Post-RERA practices, following are the points to consider while concluding the meaning of the incurred cost for the purpose of RERA –

- Promoter allowed to withdraw money from RERA project designated bank account based on PROPORTION TO THE PERCENTAGE COMPLETION OF THE PROJECT – proviso 1 to Section 4(2)(L)(D)
- Means, the promoter shall invest, construct, develop, post that claims for the money spent – like a reimbursement - proviso 2 to Section 4(2)(L)(D)
- Further the provision of RERA mandates, utilisation of the funds for the project for which the money has been collected from the allottees - Section 4(2)(L)(D)
- So, the objective of the Act, provision of law is to ensure the money realised from the allottees to be applied/utilised for the same project. Hence all expenses, payments, advances made, be considered as application/utilisation for the purpose of the project. Hence allowed to withdraw the money from the RERA project designated bank account.

- Following are the heads of expenses, payments, advances to be considered as costs incurred –

Sl No	Nature of Expenses / Payments	Details	Eligible to withdraw
1	Land Cost as defined in rules	Incurred	Yes
2	All Approval costs	Incurred	Yes
3	Non-Refundable advance / goodwill under JDA model	Incurred	Yes
4	Refundable advance / goodwill under JDA model	Paid – Shown as Asset in Balance Sheet. However, this is the cash flow for the promoter and is paid for the purpose of the project – Debatable	Yes/No
5	All expenses – direct or indirect – onsite or offsite	Incurred - Payable with respect to the project. Hence allowed to withdraw	Yes
6	Borrowing Costs	Incurred	Yes
7	Fixed Asset	Being an Asset, to the extent of depreciation be allowed – still debatable	Yes
8	Advance towards material purchases	Cash Out Flow Paid for the purchase/ procurement	Yes
9	Sales and Marketing Costs	Not related to Cost of development. It is a sales cost.	No
10	Income Tax / Taxes on profits	No	No
11	Passthrough charges	Being Passthrough charges. IF not considered as the Cost of the project	No

Sl No	Nature of Expenses / Payments	Details	Eligible to withdraw
12	Lease Charges paid	Incurred - Paid – Shown as Asset in Balance Sheet. However, this is the cash flow for the promoter and is paid for the purpose of the project.	Yes
13	Cancellation of amount if paid to the allottees	Incurred – Only 70 % of the amount (if so deposited) shall be considered as cost incurred.	Yes
14	Compensation / interest paid to the allottees for delay or breach of terms of the contract	Incurred – As the cost is incurred for the project. MahaRERA, GujRERA are specifically mentioned as incurred.	Yes
15	Advances made for rendering services – eg., professional fees	Cash Out Flow Paid for the project purposes	Yes
16	Common Expenses	Incurred E.g., Management fees, Common Accountants fees, Common administration fees – shall be Allocated	Yes

#### Note –

- the input for the certificate shall be the books of accounts maintained by the promoter.
- common expenses if any shall be allocated to various projects/businesses on scientific parameters. Eg., Manager who manages 4 different projects, the salary of the manager shall allocate based on time, efforts, project size, cost etc

- any advance for materials or services paid shall be recovered or adjusted as per the terms of the contract.
- precautions to be taken in case of related or associate party transactions.

**Other References on Cost Incurred -** In view of the same, few RERA Authorities have given guidelines to arrive at Incurred Cost for the purpose of issuing Certificate U/s. 4(2)(L)(D) of the RERA Act. MahaRERA has issued the circular/notification in this regard. The summary is as below -

- MahaRERA has clarified the expression Incurred in its Circular 7/2017 dated 4<sup>th</sup> July 2017, Clarification on CA Certificate –  
*the expression “incurred” would mean amount of product or service received, creating a debit in favour of a seller or supplier and shall also include the amount of product or service received against the payment.*
- RERA Bank Account Direction issued by K RERA in Jan 2020 has mentioned –  
*Certificate from the Chartered Accountant in practice other than the statutory auditors of the Promoter in Template Form-4, for the cost incurred and paid on construction cost and the land cost. The Chartered Accountant in practice is also required to certify the proportion of the cost incurred and paid on construction and land cost to the total estimated cost of the project. The total estimated cost of the project multiplied by such proportion shall determine the maximum amount which can be withdrawn by the Promoter from the RERA Bank Account.*

#### Opinion on Incurred Cost –

On the understanding of the objective of the Act, Provision of law, authority clarifications and real estate practices, we believe that the **incurred cost is a combination of Paid (advances) + Expenses Payable + Cost of Asset + Non Refundable Deposits** in relation to the project.

The concept of Incurred Cost may be a combination of Cash and Accrual transactions, the promoters shall consider, prepare the statements, reconcile the books for the purpose of RERA and professionals collect and retain this information or statements as part of working papers while issuing Chartered Accountant Certificates.

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