



**Guwahati Branch**  
Eastern India Regional Council  
**The Institute of Chartered Accountants of India**

(Setup by an Act of Parliament)  
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**Exposure Draft of Onerous Contracts—Cost of Fulfilling a Contract (Amendments to Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets)**

**Review Comments**

Paragraphs 68A, 94A and 105 are added and paragraph 69 is amended

**Comment:**

The new para 68 A , 94 A and 105 are relevant for better analysis of Ind AS 37 and aid in better understanding of onerous contracts and its cost analysis. An example of an onerous contract might be an agreement to rent out a property that is no longer needed or that can no longer be made use of in a profitable manner. For instance, a company signs a multiyear agreement to rent its office space, then due to economic recession or adverse market conditions, moves or downsizes while the agreement is still in effect, leaving the office space, which it now has no use for, vacant. Another situation in the mining industry may involve a mining company that has signed a lease to mine for coal or some other commodity on a piece of land, but at some point during the term of the contract, the price of that commodity falls to a level that makes extracting it and bringing it to market unprofitable.

The amendment to Ind AS 37 clearly define the ‘unavoidable’ costs of a contract as the costs the entity could avoid if the contract did not exist—in other words, only the incremental costs. Thus the ‘unavoidable’ costs of fulfilling a contract are the costs the entity cannot avoid because of the contract’s existence—in other words, unavoidable costs **comprise both incremental costs and an allocation of other costs** that relate directly to contract activities

Incremental costs may include, inter alia:

- Contract tools
- Materials
- Sub-contractors fees

These costs will be included in the computation of full direct costs. Components of **full direct costs** may include –

- equipment cost
- depreciation
- cost of hiring permanent staff
- other types of allocated cost



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It appears that entities currently applying the 'incremental cost' approach will need to recognise potentially more provisions for onerous contracts.

The revision in Ind AS 37 will facilitate:

- Faithful representation
- Consistency with other Ind AS
- Reduced complexity with better clarity

Dated at Guwahati,  
19<sup>th</sup> day of February, 2021

For, Guwahati Branch of EIRC of ICAI

(Sd/-)

CA. Kamal Mour  
(Vice Chairman)