Jyoti Barik

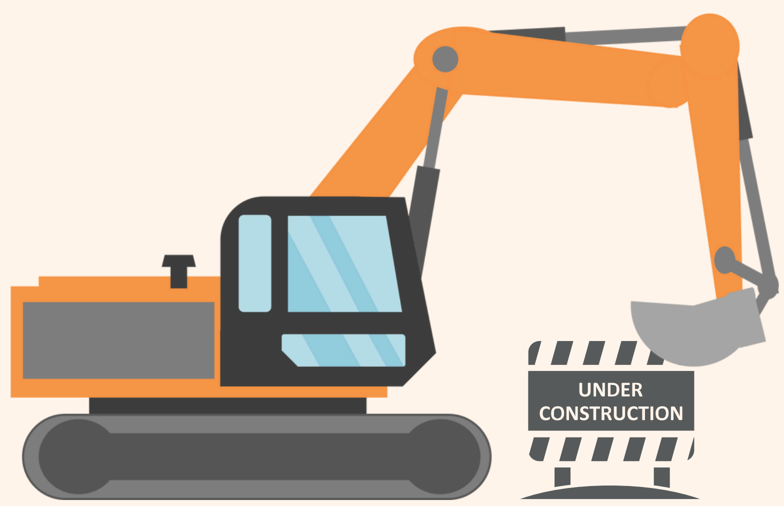
Capital Work in Progress (CWIP)

Meaning

The Capital work in progress (CWIP) represents the costs incurred on fixed assets/projects that are in the process of construction or completion and are not ready for intended use on the reporting date.

For example, Costs related to a long-term project, such as building a new factory . All costs for materials, labor, and other expenses related to building a new factory while it is still under construction are classified as CWIP.

Although Capital Work in Progress is treated as a non-current asset, it is neither depreciated nor made subject to revaluation until the asset is completed and put into use.



Accounting Treatment...

- It is reported on the balance sheet as a non-current asset.

- The expenses for the project are accumulated in a separate "CWIP account" until the asset is completed and put into service.

- Once the project is finished, the balance is transferred to the appropriate fixed asset account, and the CWIP account is removed from the balance sheet.

- During the construction phase, the costs associated with CWIP are not expensed on the income statement.

Example

Suppose a company is building a new manufacturing plant:

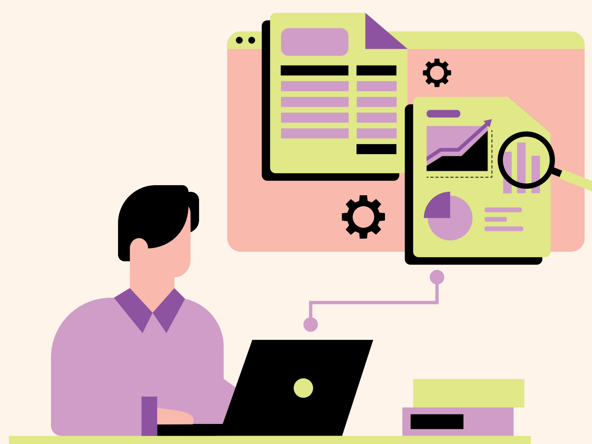
Particulars	Amount(₹)
Land preparation	10,00,000
Construction costs	50,00,000
Machinery ordered (advance paid)	20,00,000
Total CWIP	80,00,000

Until the plant is completed and ready for use, ₹80,00,000 will appear as Capital Work in Progress on the balance sheet.

Once the plant is complete and operational, the total amount is transferred from CWIP to "Fixed Assets" (Plant & Machinery), and depreciation starts thereafter.

1. During construction:

Dr. Capital Work in Progress A/c
 Cr. Cash/Bank or Accounts Payable



2. On completion (transfer to fixed asset):

Dr. Fixed Asset A/c (e.g., Building/Machinery)
 Cr. Capital Work in Progress A/c

Example of HUL

Consolidated Balance Sheet
as at 31st March, 2025

Hindustan Unilever Limited

(All amounts in ₹ crores, unless otherwise stated)

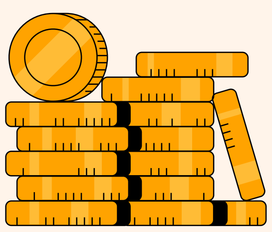
Particulars	Note	As at 31st March, 2025	As at 31st March, 2024
ASSETS			
Non-current assets			
Property, plant and equipment	3	8,625	8,031
Capital work-in-progress	3	1,009	1,025
Goodwill	4	17,466	17,466
Other intangible assets	4	28,244	28,247
Investments accounted for using the equity method	5	57	65
Financial assets			
Investments	6	2	2
Loans	7	87	102
Other financial assets	8	763	760
Deferred tax assets	9C	17	10
Non-current tax assets (net)	9E	1,199	1,175
Other non-current assets	10	360	292
Total - Non-current assets (A)		**57,829**	**57,175**

C. Capital Work-In-Progress

Capital work-in-progress comprises of property, plant and equipment that are not ready for their intended use at the end of reporting period and are carried at cost comprising direct costs, related incidental expenses, other directly attributable costs and borrowing costs.

Opening Balance as at 1st April, 2023	**1,132**
Additions	1,421
Capitalisations	(1,528)
Balance as at 31st March, 2024	**1,025**
Additions	1,306
Capitalisations	(1,322)
Balance as at 31st March, 2025	**1,009**

Temporarily suspended projects do not include those projects where temporary suspension is a necessary part of the process of getting an asset ready for its intended use.



Source:

https://www.hul.co.in/investors/annual-reports-and-performance-highlights/annual-reports/

Points to be noted

Positive Interpretation ✅(Good Sign)	⚠️ Caution
Indicates future growth potential and capacity building.	The company's cash is tied up in assets that are not yet earning returns.
Suggests management is reinvesting profits into productive assets.	Until completion, these investments don't contribute to revenue but still affect cash flow and capital employed.
CWIP rising steadily, then falling as assets are capitalized, then it can be sign of Efficient project execution.	Persistent or rising CWIP may indicate project delays, cost overruns, or management inefficiency.

*The interpretation of CWIP ultimately depends on the company's business nature, project type, and industry conditions, as what may indicate growth for one firm could signal inefficiency for another.

THANK YOU FOR READING !