CHAPTER VI

Impact of Implementation of Indian Accounting Standards (under Phase – II) in selected Central Public Sector Enterprises

6.1 Introduction

The role of financial reporting in the overall growth and development of an economy is quiet significant. The era of globalisation and liberalisation has led to increased social mobility, cross border movement of finance, capital and commodities, which in turn has necessitated a single set of high quality global Accounting Standards. With the emergence of such high quality principle-based International Financial Reporting Standards (IFRS) in the global accounting scenario which have been set by the International Accounting Standards Board (IASB), a need was felt to converge Indian Accounting Standards with these updated high quality IFRS. The adoption or convergence with IFRS brings transparency, accountability and efficiency to financial markets and serves the public interest by fostering trust, growth and long-term financial stability in the global economy.

Keeping in view that the country has a well-established accounting framework, the Ministry of Corporate Affairs (MCA), Government of India notified Indian Accounting Standards (Ind AS), under Section 133 of the Companies Act, 2013 vide Companies (Indian Accounting Standards) Rules, 2015 keeping the Indian economic & legal environment in view and by referring to IFRS Standards. The Ind AS were modeled on IFRS which were different from the Indian Generally Accepted Accounting Principles (IGAAP) framework mainly in three key aspects i.e. fair valuation, substance over legal form and emphasis on the Balance Sheet. These Ind AS are mandatorily to be adopted by prescribed class of companies w.e.f. 1 April 2016. As on 31 March 2018, 39 Ind AS are applicable. The MCA from time to time make amendments in the Ind AS to keep them converged with IFRS through amendments in Companies (Indian Accounting Standards) Rules, 2015.

6.2 Implementation of Ind AS

Companies (Indian Accounting Standards) Rules, 2015 also laid down a roadmap for implementation of Ind AS in a phased manner beginning from the financial year 2016-17 as detailed below:

(a) Phase I

The following companies shall comply with Ind AS for financial statements for accounting periods beginning on or after 1 April 2016, with the comparatives for the periods ending 31 March 2016 or thereafter:

- Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of ₹ 500 crore or more.
- Companies having net worth of ₹ 500 crore or more other than those covered above.
- Holding, subsidiary, joint venture or associate companies of companies covered above.

(b) Phase II

The following companies shall comply with Ind AS for financial statements for accounting periods beginning on or after 1 April 2017, with the comparatives for the periods ending 31 March 2017 or thereafter:

- Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than ₹ 500 Crore.
- Unlisted companies other than those covered in Phase I whose net worth are ₹ 250 crore or more but less than ₹ 500 crore.
- Holding, subsidiary, joint venture or associate companies of companies covered above.

(c) Applicability to Banking Companies, Non-Banking Finance Companies (NBFCs) and Insurance Companies

Ind AS are applicable to NBFCs from 1 April 2018 or 1 April 2019 depending upon the listing of equity or debt securities and net worth position. Applicability of Ind AS to banking companies and insurance companies was to be from 1 April 2018, which was deferred to 1 April 2019[49] for banking companies and to 1 April 2020 for insurance companies.

[49] *The same has been further deferred to 1 April 2020 by Reserve Bank of India*

(d) Voluntary adoption of Ind AS

Any company may comply with Ind AS for financial statements for accounting periods beginning on or after 1 April, 2015 with the comparatives for the periods ending on 31 March 2015 or thereafter. However, once a company starts reporting as per the Ind AS either voluntarily or mandatorily, it cannot revert to IGAAP.

(e) Overseas Subsidiary, Associate or Joint Venture and other similar entities of an Indian Company

These entities may prepare their standalone financial statements in accordance with the requirements of the specific jurisdiction. However, these entities will still have to report their Ind AS adjusted numbers for their Indian parent company to prepare consolidated Ind AS accounts.

6.3 Objectives of audit

The objective of audit was to study the implementation of Ind AS in Phase II to assess:

(i) How far the various provisions of Ind AS were complied with by the CPSEs at the time of adoption of Ind AS in Phase-II;

(ii) The impact of implementation of Ind AS in the financial statements of CPSEs.

6.4 Scope of audit

The study covered 25 CPSEs under the administrative control of various ministries/departments which were required to adopt Ind AS in Phase II or voluntarily adopted Ind AS during 2017-18. The above also includes 2 newly incorporated CPSEs which adopted Ind AS in their first financial statements for the year 2017-18. The list of CPSEs reviewed is given in ***Appendix–XXV***.

6.5 Audit Methodology

The standalone financial statements of CPSEs which have adopted Ind AS under Phase II as well as newly incorporated CPSEs which have adopted Ind AS for the first time in 2017-18 for preparation of their financial statements with effect from 1 April 2017 have been reviewed in audit. The compliance of various provisions of Ind AS and impact of implementation of Ind AS in these CPSEs on their revenues, profit after tax (PAT), net worth and total assets of the CPSEs were analysed with reference to changes as a result of adoption of Ind AS in revenue recognition, valuation of financial instruments and Property, Plant and Equipment (PPE), calculation of employee benefits and accounting of business combinations.

6.6 Review of first time adoption of Ind AS

As per Ind AS 101, an entity's first Ind AS financial statements shall explain how the transition from IGAAP to Ind AS affected its reported Balance Sheet, financial performance and cash flows. Companies adopting Ind AS in Phase-II shall disclose reconciliation of their equity reported as per IGAAP on 01 April 2016 and on 31 March 2017 with equity as per Ind AS on the same date.

Ind AS 101 provides for optional exemptions and mandatory exemptions to the general principle of retrospective application of Ind AS. The mandatory exceptions are related to retrospective application of some aspects of Ind AS 10 – Events after the Reporting Period, Ind AS 109 – Financial Instruments and Ind AS 110 – Consolidated Financial Statements.

The optional exemptions include the following:

(i) Ind AS 103 – Business Combinations

A company may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS).

Audit observed that out of 25 CPSEs under study, Braithwaite Burn and Jessop Construction Company Limited and Karnataka Solar Power Development Corporation Limited applied retrospectively to past business combination.

(ii) Ind AS 16 – Property, Plant and Equipment

Ind AS permits a first-time adopter to elect to continue with the carrying value of its Property, Plants and Equipments (PPE) and intangible assets as recognized in the financial statements as at the date of transition to Ind AS, as measured as per IGAAP and use that as its deemed cost at the date of transition after making necessary adjustments for decommissioning liabilities. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

Audit analysis revealed that out of 25 CPSEs, 14 CPSEs opted to value of PPE at carrying cost, while one CPSE (Hassan Mangalore Rail Development Company Limited) opted to value PPE on fair value basis. Further, one CPSE (Hindustan Fluorocarbons Limited) opted to value of PPE at carrying cost except freehold land where fair value was considered.

(iii) Ind AS 27 – Separate Financial Statements

As per paragraph D14 and D15 of Ind AS-101, in case of separate financial statements, Ind AS 27 requires an entity to account for its investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with Ind AS 39. If a first-time adopter measures such an investment at cost in accordance with Ind AS 27 then it shall measure that investment either at cost or at deemed cost in its separate opening Ind AS Balance Sheet.

Audit observed that 4 CPSEs (Andrew Yule & Company Limited, Braithwaite Burn and Jessop Construction Company Limited, India Tourism Development Corporation and STC Limited) opted to measure investment in subsidiaries/associates at carrying value/cost price.

(iv) Ind AS 109 – Financial Instruments

Ind AS-101 permits an entity to designate a financial asset and investment in an equity instrument measured at fair value in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Audit analysis revealed that 5 CPSEs (Hindustan Fluorocarbons Limited, Braithwaite Burn and Jessop Construction Company Limited, Hindustan Steelworks Construction Limited, Mecon Limited and Ranchi Ashok Bihar Hotel Corporation Limited) valued equity at carrying value/cost price and two CPSEs (Maharashtra Metro Rail Corporation Limited and STC Limited) valued equity at fair value.

6.7 Adoption of Ind AS by the companies incorporated in 2017-18

Out of 25 CPSEs covered in the study, 2 CPSEs viz. Ircon Davanagere Haveri Highway Limited and Surat Integrated Transportation Development Corporation Limited were incorporated after 1 April 2017 and adopted Ind AS for the first time. As these companies prepared their financial statements for the first time, there was no impact of Ind AS.

6.8 Impact of implementation of Ind AS on selected key areas

The implementation of various provisions of Ind AS can impact the valuation of Profit after Tax (PAT), Revenues, Total Assets, and Net Worth. The values may increase or decrease depending on the options availed by the CPSE at the time of adoption of Ind AS. The results of review of compliance to various provisions of Ind AS and the impact of its implementation in respect of 23 CPSEs[50] selected for review is given below:

6.8.1 Impact on Profit after Tax (PAT)

The impact of adoption of Ind AS on Profits after Tax (PAT) for accounting periods beginning on or after 1 April 2017, with the comparative for the period ending 31 March 2016 in selected CPSEs is as follows:

[50] *Excluding 2 newly incorporated CPSEs which adopted Ind As in 2017-18*

Table 6.1: CPSE wise impact of adoption of Ind AS on PAT

Sl. No.	Name of the CPSE	Decrease in PAT (₹ In crore)	Increase in PAT (₹ In crore)	Net Impact (₹ In crore)
1	Hindustan Fluorocarbons Limited	-	1.04	1.04
2	Andrew Yule & Company Limited	-3.14	2.74	-0.40
3	Braithwaite Burn and Jessop Construction Company Limited	-1.42	0.93	-0.49
4	Bridge and Roof Co. (India) Limited	-	0.16	0.16
5	Mineral Exploration Corporation Limited	-	1.61	1.61
6	Maharashtra Metro Rail Corporation Limited	-248.42	12.08	-236.34
7	Cotton Corporation of India Limited	-	2.06	2.06
8	Hassan Mangalore Rail Development Company Limited	-8.85	16.41	7.56
9	National High Speed Rail Corporation Limited	-0.003	0.490	0.487
10	Scooters India Limited	-0.0020	0.0205	0.0185
11	Ranchi Ashok Bihar Hotel Corporation Limited	-0.10	0.13	0.03
12	MECON Limited	-1.71	0.02	-1.69
13	Hindustan Steelworks Construction Limited	-23.55	27.81	4.26
14	Solar Energy Corporation of India	-0.96	1.52	0.56
15	India Tourism Development Corporation	-112.56	111.72	-0.84
16	STC Limited	-4.61	4.33	-0.28

The maximum increase and decrease in PAT due to adoption of Ind AS were observed in India Tourism Development Corporation and Maharashtra Metro Rail Corporation Limited respectively.

6.8.2 Factors contributing to increase/decrease in PAT

The changes in valuation of different items of revenue, expenditure, assets and liabilities consequent to adoption of Ind AS can materially affect the PAT of enterprise. Audit analysis indicated that the increase of PAT of selected CPSEs consequent to adoption of Ind AS were due to the following reasons:

(i) Increase in profits due to changes in valuation of liabilities towards post employment benefits

The differences accruing due to measurement of liabilities towards post-employment benefits formed part of the profit or loss for the year under IGAAP. However under Ind AS, such differences i.e. actuarial gains or losses and return on plan assets were recognised under 'Other Comprehensive Income' instead of profit or loss. Audit observed that Hindustan Fluorocarbons Limited ,Ranchi Ashok Bihar Hotel Corporation Limited and India Tourism Development Corporation recorded an increase of ₹ 1.04 crore, ₹ 0.10 crore and ₹ 1.24 crore respectively in its profits upon adoption of Ind AS due to the different method of accounting of liabilities towards post-employment benefits.

(ii) Increase in profits due to recognition of deferred taxes

The application of Ind AS 12 - Income Taxes required recognition of deferred tax on new temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. This was not a requirement under IGAAP. Audit observed that Andrew Yule & Company Limited, National High Speed Rail Corporation Limited, Solar Energy Corporation of India and STC Limited recorded an increase of ₹ 1.08 crore, ₹ 0.04 crore, 0.03 crore and ₹1.15 crore respectively in its profits due to new method of recognition of deferred tax laid down in Ind AS-12.

(iii) Increase in profits due to measurement of investments at fair value through profit and loss

All financial assets and financial liabilities are carried at cost under IGAAP whereas under Ind AS, certain financial assets and financial liabilities are subsequently measured at amortised cost by applying the effective interest rate. Audit observed that measurement of investments at fair value through profit and loss of Andrew Yule & Company Limited and STC Limited resulted in increase of profits after taxes by ₹ 0.31 crore and ₹ 1.04 crore respectively.

(iv) Increase in profits due to other reasons

Andrew Yule & Company Limited recorded an increase in profit of ₹ 1.31 crore and ₹ 0.04 crore due to Prior Period Items and gain on re-measurement of Long Term Receivables respectively. In case of Bridge and Roof Co. (India) Limited, PAT rose by an amount of ₹ 0.16 crore due to recognition of employee loan and security deposit which have been re-measured at fair value as per Ind AS 107 and Ind AS 109. Maharashtra Metro Rail Corporation Limited recorded increase in PAT by ₹ 0.10 crore, ₹ 0.13 crore and ₹ 11.84 crore arising from interest income due to unwinding of employee benefit/ loans and security deposit and deferred income taken to P&L account respectively. Hassan Mangalore Rail Development Company Limited recorded increase in PAT by ₹ 2.65 crore and ₹ 13.76 crore by recognizing the difference between fair value of Overheads, Payable and nominal value as unearned revenue and recognizing the same as other income on Straight Line Method basis over repayment period and by re-computing depreciation/ amortization on Freight Sharing Rights over the remaining period of Concession Agreement from the date of transition, respectively. National High

Speed Rail Corporation Limited recorded increase in PAT by ₹ 0.30 lakh, ₹ 0.25 crore and ₹ 0.20 crore on account of interest income on fair value of security deposit, employee benefit expenses capitalized to Capital-work-in-progress and recognition of share issue expenses in other equity, respectively. Further, Scooters India Limited recorded an increase in profit of ₹ 0.02 crore due to national interest on workmen receivable and security deposit and MECON Limited recorded an increase in profit of ₹ 0.02 crore as a result of re-computation job. Hindustan Steelworks Construction Limited recorded increase in PAT by ₹13.16 crore, ₹ 9.90 crore, ₹ 3.95 crore and ₹ 0.80 crore on account of financial assets measured at amortized cost, unbilled revenue, reversal of provision against trade receivables and reversal of provision against warranty charges, respectively. Solar Energy Corporation of India also recorded an increase in PAT by amounts of ₹ 0.27 crore, ₹ 1.00 crore, ₹ 0.06 crore and ₹ 0.16 crore on accounts of recognition of interest component on unwinding of discount on security deposits receivable, amortization of interest component recognized in deferred revenue income, decrease in depreciation on leasehold land and income recognized from deferred income, respectively. Moreover, India Tourism Development Corporation recorded increase in PAT of ₹ 106.93 crore, ₹ 4.93 crore and ₹ 1.15 crore on account of reversal cost to be paid to others, reversal of electricity recovery and fair value measurement impact as per Ind AS respectively and STC Limited recorded an increase of ₹ 2.14 crore on the account of writing off the prior period expenditure.

The decrease in PAT of selected CPSEs consequent to adoption of Ind AS was due to the following reasons:

(i) Decrease in profits due to recognition of deferred taxes

Application of Ind AS 12- Income Taxes requires recognition of deferred tax on new temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. This was not a requirement under IGAAP. In the case of Maharashtra Metro Rail Corporation Limited, Hassan Mangalore Rail Development Company Limited, Hindustan Steelworks Construction Limited and India Tourism Development Corporation, audit observed that the profits of the company decreased by ₹ 248.42 crore, ₹ 4.71 crore, ₹ 2.29 crore and ₹ 0.33 core respectively due to recognition of deferred tax at the time of adoption of Ind AS.

(ii) Decrease in profits due to changes in valuation of liabilities towards post employment benefits

Under IGAAP, the value of changes in liabilities towards post-employment benefits forms part of the profit or loss for the year whereas under Ind AS, such valuations i.e. actuarial gains and losses and return on plan assets are recognised under Other Comprehensive Income instead of profit or loss. In the case of Andrew Yule & Company Limited, Braithwaite Burn and Jessop Construction Company Limited and Hassan

Mangalore Rail Development Company Limited audit observed that the profits of the company decreased by ₹ 2.77 crore, ₹0.39 crore and ₹ 0.04 crore respectively due to change in valuation of liabilities towards of post-employment benefits. Ranchi Ashok Bihar Hotel Corporation Limited, Hindustan Steelworks Construction Limited, Solar Energy Corporation of India and STC Limited recorded decrease in PAT by ₹ 0.10 crore, ₹ 0.29 crore, ₹ 0.02 crore and ₹ 3.51 crore respectively due to increase in liabilities towards post employment benefits.

(iii) Decrease in profits due to other reasons

Audit observed that the profits of Andrew Yule & Company Limited decreased by ₹ 0.37 crore consequent to booking of Tea Board subsidy in other Non-Current Liabilities. Hassan Mangalore Rail Development Company Limited recorded decrease in PAT by ₹ 4.07 crore and ₹ 0.03 crore on recognition of notional interest expense on deferred Overheads Payable over the repayment period of liability and re-computation of interest on fixed deposits based on Effective Interest Rate Method, respectively. Profits of National High Speed Rail Corporation Limited decreased by ₹ 0.003 crore due to amortization of prepaid expenses deferred on security deposits and that of Scooters India Limited decreased by ₹ 0.002 crore for increase in the expenses due to security deposits, rates and taxes, wages and prior year expenses. MECON Limited also recorded a decrease in profit by ₹ 1.71 crore due to increase in provisions of expenses. It was further observed in audit that Hindustan Steelworks Construction Limited suffered decrease in PAT to the tunes of ₹ 20.91 crore and ₹ 0.06 crore on account of finance cost corresponding to deposits from contractors and amortization of leasehold land, respectively. Solar Energy Corporation of India also recorded a decrease in PAT by amounts of ₹ 0.06 crore, ₹ 0.29 crore, ₹ 0.36 crore and ₹ 0.23 crore on accounts of increase in amortization of deferred lease rental expense, amortization of interest component recognized in deferred revenue expenses, unwinding of discount on performance guarantee deposit and increase in depreciation expense on account of non-adjustment of capital grant from cost of capital asset, respectively. Moreover, STC Limited recorded decrease of PAT by ₹ 0.97 crore and ₹ 0.13 crore due to finance cost and exceptional expenditure and India Tourism Development Corporation recorded decrease of PAT by ₹ 106.93 crore and ₹ 4.93 crore due to reversal of revenue received on account of others and reversal of electricity recovery respectively.

6.8.3 Impact of adoption of Ind AS on booking of revenues

Ind AS 18 - Revenue is the applicable Ind AS for accounting of revenues. The definition of 'revenue' under Ind AS 18 covers all economic benefits that arise in the ordinary course of activities of an entity which results in increase in net worth, other than increases relating to contributions from net worth participants. Revenue, as per IGAAP (AS 9 – Revenue Recognition), however is defined as gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

The impact of adoption of Ind AS on booking of revenues for accounting periods beginning on or after 1 April 2017, with the comparative for the period ending 31 March 2016 in selected CPSEs is as follows:

Table 6.2: CPSE wise impact of transition to Ind AS on Revenues

Sl. No.	Name of the CPSE	Decrease in Revenue (₹ in crore)	Increase in Revenue (₹ in crore)	Net Impact (₹ in crore)
1	Hindustan Fluorocarbons Limited	-	1.45	1.45
2	Braithwaite Burn and Jessop Construction Company Limited	-	0.42	0.42
3	Cotton Corporation of India Limited	-	218.86	218.86
4	Chennai-Ennore Port Road Company Limited	-0.005	-	-0.005
5	Hassan Mangalore Rail Development Company Limited	-	29.46	29.46
6	Scooters India Limited	-0.0020	0.0205	0.0185
7	Hindustan Steelworks Construction Limited	-1.31	9.90	8.59
8	Solar Energy Corporation of India	-0.27	-	-0.27
9	India Tourism Development Corporation Limited	-111.86	1.15	-110.71

Audit observed that the maximum increase of ₹ 218.86 crore in revenue was noticed in Cotton Corporation of India Limited whereas decrease of ₹ 111.86 crore in revenue was noticed in respect of India Tourism Development Corporation Limited.

6.8.4 Factors responsible for increase/decrease in revenue

The increase in revenue of selected CPSEs consequent to adoption of Ind AS was due to the following reasons:

Audit observed that Hindustan Fluorocarbons Limited recorded an increase in revenue by an amount of ₹ 1.45 crore from operating activities and Braithwaite Burn and Jessop Construction Company Limited recorded an increase in revenue by an amount of ₹ 0.42 crore on account of income from other sources. Due to change in Accounting policy for Revenue Recognition as per Ind AS-18, Cotton Corporation of India Limited recorded an increase in revenue from operations by an amount of ₹ 218.86 crore. Hassan Mangalore Rail Development Company Limited recorded increase in revenue to the tune of ₹ 29.46 crore due to recognition of construction contract cost under Service Concession Agreements incurred during FY 2016-17 on Project Assets under construction and subsequent additions to the project assets. Due to notional interest on workmen receivable and security deposit, Scooters India Limited recorded an increase in revenue by ₹ 0.02 crore. Further, revenue of Hindustan Steelworks Construction Limited was increased by an amount of ₹ 9.90 crore on account of unbilled revenue. In India Tourism Development Corporation, revenue was increased by ₹ 1.15 crore due to fair value measurement impact as per Ind AS.

The reason for decrease in revenue of selected CPSEs consequent to adoption of Ind AS was due to Prior Period Error as Chennai-Ennore Port Road Company Limited recorded a decrease in revenue by an amount of ₹ 0.50 lakh. Scooters India Limited suffered a decrease in revenue by ₹ 0.20 lakh as a result of increase in the expenses due to security deposits, rates and taxes, wages and prior year expenses. Further, revenue of Hindustan Steelworks Construction Limited and Solar Energy Corporation of India decreased by amounts of ₹ 1.31 crore and ₹ 0.27 crore on account of financial asset measured at amortized cost and rebate allowed to customers adjusted from revenue income. In India Tourism Development Corporation, revenue was decreased by ₹ 106.93 crore and ₹ 4.93 crore due to reversal of revenue received on account of others and reversal of electricity recovery respectively.

6.8.5 Impact of adoption of Ind AS on value of total assets

Total value of assets are impacted upon implementation of Ind AS due to difference in methods of accounting prescribed compared to IGAAP under Ind AS 16 – Property, Plant and Equipment (PPE), Ind AS 38 – intangible assets, Ind AS 32 – Financial Instruments: Presentation, Ind AS 109 – Financial Instruments and Ind AS 40 – Investment Property.

Ind AS 101 pertaining to first time adoption of Ind AS permitted the first-time adopter to elect to continue with the carrying value for all of its PPE as recognized in the Financial Statements measured under IGAAP as at the date of transition to Ind AS, and the carrying value as its deemed cost on the date of transition after making necessary adjustments for de-commissioning liabilities. This exemption could also be used for valuation of intangible assets under Ind AS 38 – Intangible assets and Ind AS 40 – Investment property.

The impact of adoption of Ind AS on value of total assets for accounting periods beginning on or after 1 April 2017, with the comparative for the period ending 31 March 2016 in selected CPSEs is as follows:

Table 6.3: CPSE wise impact of adoption of Ind AS on value of total assets

Sl. No.	Name of the CPSE	Decrease in Value of Total Assets (₹ In crore)	Increase in Value of Total Assets (₹ In crore)	Net Impact (₹ In crore)
1	Hindustan Fluorocarbons Limited	-	29.96	29.96
2	Andrew Yule & Company Limited	-0.02	3.11	3.09
3	Braithwaite Burn and Jessop Construction Company Limited	-73.86	4.85	-69.01
4	Bridge and Roof Co. (India) Limited	-0.74	-	-0.74
5	Maharashtra Metro Rail Corporation Limited	-9.39	20.04	10.65
6	Hindustan Organic Chemicals Limited	-583.07	1696.18	1113.11
7	Chennai-Ennore Port Road Company Limited	-15.19	33.85	18.66
8	Hassan Mangalore Rail Development Company Limited	-0.03	29.26	29.23
9	National High Speed Rail Corporation Limited	-0.02	0.35	0.33
10	Scooters India Limited	-	0.0285	0.0285
11	Ranchi Ashok Bihar Hotel Corporation Limited	-	4.67	4.67
12	Hindustan Steelworks Construction Limited	-36.15	-	-36.15
13	Solar Energy Corporation of India	-2.54	-	-2.54
14	India Tourism Development Corporation	-0.01	-	-0.01
15	STC Limited	-314.32	313.29	-1.03

The maximum net impact (increase) of ₹ 1,113.11 crore in value of total assets was noticed in Hindustan Organic Chemicals Limited whereas maximum net impact (decrease) of ₹ 69.01 crore in total value of assets was noticed in Braithwaite Burn and Jessop Construction Company Limited**.**

6.8.6 Factors responsible for increase/decrease in value of total assets

The increase in value of total assets of selected CPSEs consequent to adoption of Ind AS was due to the following reasons:

The value of total assets of Hindustan Fluorocarbons Limited and Andrew Yule & Company Limited increased by an amount of ₹ 29.96 crore and ₹ 3.11 crore due to computation of land and investment at fair value, respectively. Braithwaite Burn and Jessop Construction Company Limited recorded increase in value of total assets by ₹ 0.08 crore and ₹ 4.77 crore on account of Investments and Deferred Tax Assets respectively. Increase in value of total assets was noticed in Maharashtra Metro Rail Corporation Limited by amounts of ₹ 10.76 crore and ₹ 9.27 crore due to capitalization of interest expense on fair valuation of Sub-debt and security deposit and segregation into pre paid expenses done for fair valuation of employee benefits, security deposits and management fees, respectively. Hindustan Organic Chemicals Limited recorded increase in value of total assets by ₹ 1,687.45 crore and ₹ 8.73 crore on account of revaluation of land at fair price and changes in defined benefit plan, respectively.

Chennai-Ennore Port Road Company Limited recorded increase in value of total assets by amounts of ₹ 0.71 crore, ₹ 1.28 crore, ₹ 14.57 crore, ₹ 15.97 crore and ₹ 1.32 crore as preliminary expenses under unamortized expenses, reclassification of current asset to non-current asset, increase of non-current asset, reclassification of cash and cash equivalents as current financial assets and recovery of current assets from parties, respectively. Increase in value of total assets was noticed in Hassan Mangalore Rail Development Company Limited by amount of ₹ 29.26 crore due to claiming of lower depreciation/ amortization on tangible/ intangible assets as per Ind AS 11 and recomputation of depreciation/ amortization on Freight Sharing Rights using SLM basis over the remaining period of Concession Agreement from the date of transition. Increase in value of total assets was noticed in National High Speed Rail Corporation Limited by amounts of ₹0.29 crore, ₹ 0.04 crore, ₹ 0.01 crore and ₹0.01 crore due to capitalization of expenses in CWIP (including prior period expenses, recognition of deferred tax on share issue expenses, fair value adjustment of non-current portion (difference between carrying value and fair value of security deposit) and fair value adjustment of current portion (difference between carrying value and fair value of security deposit), respectively. Audit observed an increase in value of total assets of Scooters India Limited by amounts of ₹ 0.03 crore and ₹ 0.002 crore due to change in the treatment of lease hold land and notional interest on security deposits received by the company, respectively. Further, value of total assets of Ranchi Ashok Bihar Hotel Corporation Limited was increased by ₹ 4.67 crore on account of capitalisation of convention centre. Moreover, ₹ 313.02 crore increased in value of total assets in STC Limited on account of PPE classified into investment property.

The decrease in value of total assets of selected CPSEs consequent to adoption of Ind AS was due to the following reasons:

- Andrew Yule & Company Limited reported decrease by an amount of ₹ 0.02 crore due to discounting on Non-Current Trade Receivables.
- Braithwaite Burn and Jessop Construction Company Limited recorded decrease by ₹ 5.20 crore and ₹ 68.66 crore on account of Trade receivable and other factors respectively.
- For change in policy for recognition of Property, Plant and Equipment and re-measurement of financial assets at fair value, Bridge and Roof Co. (India) Limited recorded decrease by ₹ 0.17 crore and ₹ 0.57 crore, respectively.
- Maharashtra Metro Rail Corporation Limited recorded by amounts of ₹ 0.09 crore, ₹ 8.64 crore, ₹ 0.38 crore and ₹ 0.27 crore due to impact of fair valuation for years 2015-16 to 2017-18, impact of one time management fees on foreign loan for 2016-17 to 2017-18, fair valuation of loans given to employees for years

from 2015-16 to 2017-18 and fair valuation of security deposits for years 2015-16 to 2017-18, respectively.

- Hindustan Organic Chemicals Limited recorded decrease by ₹ 379.40 crore, ₹199.86 crore and ₹3.81 crore on account of sale of land, deferred tax liabilities and refund of VAT due from State Government, respectively.
- Chennai-Ennore Port Road Company Limited recorded decrease in value of total assets by amount of ₹ 15.19 crore as reclassification of cash and cash equivalents as current financial assets.
- Decrease was noticed in Hassan Mangalore Rail Development Company Limited by amount of ₹ 0.03 crore due to re-computation of interest on fixed deposits based on Effective Interest Rate Method.
- Decrease was noticed in National High Speed Rail Corporation Limited by amount of ₹0.02 crore due to fair valuation of security deposit.
- Hindustan Steelworks Construction Limited suffered a decrease by amounts of ₹ 5.28 crore, ₹ 0.18 crore, ₹ 12.37 crore, ₹ 16.94 crore and ₹ 1.38 crore on accounts of deposit with clients, recognition of leasehold land as fixed asset, provisions against trade receivables, provisions for taxation and deferred tax assets.
- Solar Energy Corporation of India also recorded a decrease in the value of total assets by ₹ 1.77 crore and ₹ 0.77 crore due to de-recognition of leasehold land and decrease in value of non-current security deposit receivable, respectively.
- STC Limited and India Tourism Development Corporation recorded decrease of ₹ 314.04 crore and ₹ 0.01 crore on account of consideration of investment property and fair value measurement impact as per Ind AS respectively.

6.8.7 Impact of adoption of Ind AS on net worth

Net worth is the difference between the value of assets and the liabilities of a company. Net worth (equity) is arrived at by reducing from the aggregate value of the paid-up share capital, free reserves and securities premium account, the aggregate value of accumulated losses, deferred expenditure and miscellaneous expenditure not written off. Free reserves do not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.

Adoption of Ind AS mandates preparation of an opening Ind AS Balance Sheet at the date of transition to Ind ASs. The accounting policies that an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using IGAAP. The impact of adoption of Ind AS on net worth for accounting periods beginning on or after 1 April 2017, with the comparative for the period ending 31 March 2016 in selected CPSEs is as follows:

Table 6.4: CPSE wise impact of adoption of Ind AS on net worth

Sl. No.	Name of the CPSE	Decrease in Net Worth (₹ In crore)	Increase in Net Worth (₹ In crore)
1	Hindustan Fluorocarbons Limited		49.75
2	Andrew Yule & Company Limited	-110.73	
3	Braithwaite Burn and Jessop Construction Company Limited	-52.50	
4	Bridge and Roof Co. (India) Limited	-0.80	
5	Hooghly Printing Company Limited	-1.12	
6	Maharashtra Metro Rail Corporation Limited	-5.29	
7	Hindustan Organic Chemicals Limited	-270.00	
8	Cotton Corporation of India Limited	-	18.06
9	National High Speed Rail Corporation Limited	-	0.29
10	Scooters India Limited	-0.0251	-
11	Ranchi Ashok Bihar Hotel Corporation Limited	-2.16	-
12	MECON Limited	-1.69	-
13	Hindustan Steelworks Construction Limited	-	0.41
14	Solar Energy Corporation of India	-	1.19
15	India Tourism Development Corporation	-16.91	-
16	STC Limited	-1.10	-

The maximum increase of ₹ 49.75 crore in net worth was noticed in Hindustan Fluorocarbons Limited whereas maximum decrease of ₹ 270.00 crore in net worth was noticed in Hindustan Organic Chemicals Limited.

6.8.8 Factors responsible for increase/decrease in net worth

The increase in net worth of selected CPSEs consequent to adoption of Ind AS was due to the following reasons:

- Net worth of Hindustan Fluorocarbons Limited resulted in increase by an amount of ₹ 49.75 crore on account of fair valuation of freehold land.
- Andrew Yule & Company Limited recorded increase in net worth by an amount of ₹ 0.65 crore due to increase in investment.
- Braithwaite Burn and Jessop Construction Company Limited recorded increase in net worth by amounts of ₹ 16.03 crore, ₹ 0.05 crore and ₹ 4.26 crore due to proposed dividend and tax, investment in bonds valued at amortised cost and impact on deferred tax, respectively.
- For impact of excess depreciation, Hooghly Printing Company Limited recorded increase in net worth to the tune of ₹ 0.13 crore.

- Increase in net worth was recorded by Cotton Corporation of India Limited due to adjustment of prior period items of ₹ 13.84 crore and adjustment of dividend and tax on dividend of ₹ 4.22 crore.
- National High Speed Rail Corporation Limited recorded increase in net worth by amounts of ₹ 0.40 lakh, ₹ 0.03 lakh and ₹ 0.246 crore on accounts of recognition of deferred tax assets on share issue expenses, unwinding of discounts on security deposits and capitalization of expenses in CWIP, respectively.
- Increase in net worth of Hindustan Steelworks Construction Limited by ₹ 0.41 crore was contributed by various factors which resulted in increase in net worth viz. measurement of deposit with clients/from contractors at amortized cost and impact of unbilled revenue and various other factors which resulted in decrease in net worth viz. impairment allowance on trade receivables, provision for warranty charges, amortization of leasehold land, prior period errors and tax impact of above adjustments.
- Increase in net worth to the tune of ₹ 1.19 crore was also recorded by Solar Energy Corporation of India due to recognition of financial assets and liability on fair value/ amortized cost, depreciation of leasehold land and deferred tax thereon and amortization of deferred revenue government grant.

The decrease in net worth of selected CPSEs consequent to adoption of Ind AS was due to the following reasons:

- Andrew Yule & Company Limited recorded decrease in net worth by amounts of ₹ 2.89 crore, ₹ 3.75 crore, ₹ 0.10 crore, ₹0.22 crore, ₹ 1.10 crore and ₹ 103.32 crore due to rectification of prior period errors, increase in deferred tax liability, consideration of Trade Receivable at discounted value, adjustment of capital advance, reclassification of Tea Board subsidy and adjustment of revaluation reserve of bearer plants, respectively.
- Braithwaite Burn and Jessop Construction Company Limited recorded decrease in net worth by amounts of ₹ 68.13 crore and ₹ 4.71 crore due to derecognition of assets and loss allowance as per Expected Credit Loss method, respectively.
- Bridge and Roof Co. (India) Limited recorded decrease in net worth by amounts of ₹ 0.17 crore, ₹ 0.97 lakh, ₹ 0.56 crore and ₹ 0.06 crore due to recognition of leasehold land and building under lease head on transition date, re-measurement of employee loan at fair value, re-measurement of non-current financial assets at fair value and computation of impairment loss in respect of trade receivable using expected credit loss method, respectively.

- For impact of deferred tax and change in estimation, Hooghly Printing Company Limited recorded decrease in net worth to the tunes of ₹ 0.25 crore and ₹ 1.00 crore, respectively.
- Net worth of Maharashtra Metro Rail Corporation Limited decreased by ₹ 5.29 crore due to fair valuation and other impacts.
- On account of reclassification of Preference Share Capital as Current Financial Liability instead of Share Capital, decrease in net worth of ₹ 270 crore was observed in Hindustan Organic Chemicals Limited.
- National High Speed Rail Corporation Limited recorded decrease in net worth by an amount of ₹ 0.30 lakh on account of amortization of prepaid expenses deferred on security deposit.
- Scooters India Limited, Ranchi Ashok Bihar Hotel Corporation Limited and MECON Limited recorded decrease in net worth by ₹ 0.03 crore, ₹ 2.16 crore and ₹ 1.69 crore because of the change in the treatment of leasehold land, loss during the period and decrease in net profit, respectively.
- India Tourism Development Corporation recorded decrease of Net worth by ₹ 16.91 crore due to reversal of proposed dividend along with tax on dividend, amortisation of financial assets/liabilities, adjustment of deferred tax and prior period items.
- Further, decrease of net worth of ₹ 1.10 crore was noticed in STC Limited on account of adjustment of prior period error and depreciation adjustment.

6.9 Conclusion

Adoption of Ind AS resulted in changes in the financial reporting framework, use of fair valuation as against historical cost valuation. Audit analysis indicated that values of profit after tax, total assets and net worth of selected CPSEs were impacted by adoption of Ind AS in Phase II. The changes in method of recognition of revenues under Ind AS also impacted the revenues recognized by CPSEs which adopted Ind AS in Phase II. The changes are disclosed in the financial statements of the selected CPSEs for the year ended 31 March 2018. These changes should be given due consideration while assessing the performance and financial position of the concerned CPSEs.