Chapter-VI

Impact of implementation of Indian Accounting Standards in State Public Sector Enterprises

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6.1 Introduction

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 International Financial Reporting Standards (IFRS). The Ind AS were modelled 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 2020, 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 the Companies (Indian Accounting Standards) Rules, 2015.

The objective of audit was to study the implementation of Ind AS in Phase I & II to assess whether various provisions of Ind AS were complied with by the State Public Sector Enterprises (SPSEs) at the time of adoption of Ind AS and their impact on the financial statements of SPSEs.

6.2 Implementation of Ind AS

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

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.

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.

Voluntary adoption of Ind AS

Any company may adopt Ind AS voluntarily for its 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.

6.3 Scope of Audit and Methodology

The study covered seven SPSEs[1] which were required to adopt Ind AS in Phase I & II and one SPSE Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) which voluntarily adopted Ind AS during 2016-17**.** The seven SPSE's qualifying to adopt Ind AS includes four subsidiary companies of one qualified company (Haryana State Industrial and Infrastructure Development Corporation Limited - HSIIDC). Of the four subsidiary companies of HSIIDC two companies namely, Panipat Plastic Park Haryana Limited (incorporated on 27 December 2016) and Saur Urja Nigam Haryana Limited (incorporated on 9 June 2016) were required to adopt Ind AS in their first financial statements (*i.e.*, 2016-17) while two other subsidiary companies namely Haryana Concast Limited and Haryana Minerals Limited are inactive companies. Further, Ind AS was applicable on Haryana State Roads and Bridges Development Corporation from the year 2019-20, but this could not be considered for analysis as its financial statements for the year 2019-20 were in arrears. The list of seven SPSEs reviewed is given in ***Appendix VI.***

The standalone financial statements of SPSEs which have adopted Ind AS under Phase I & II as well as newly incorporated SPSEs which have adopted Ind AS for the first time for preparation of their financial statements with effect from 1 April 2016 or 1 April 2017 have been reviewed in audit. The

[1] Haryana Vidyut Prasaran Nigam Limited, Haryana Power Generation Corporation Limited, Haryana State Industrial and Infrastructure Development Corporation Limited, Panipat Plastic Park Haryana Limited, Haryana Minerals Limited, Saur Urja Nigam Haryana Limited and Haryana Concast Limited.

compliance of various provisions of Ind AS and impact of implementation of Ind AS in these SPSEs on their revenues, profit after tax, net worth and total assets 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.

6.4 Review of first time adoption of Ind AS

Ind AS 101–First time adoption of Ind AS 101 required that an entity should explain how the transition from IGAAP to Ind AS affected its Balance Sheet, financial performance and cash flows. In accordance with this requirement, all companies (except UHBVN) have disclosed through Notes to their Financial Statements for the year ended 31 March 2017, the effect of Ind AS adoption on the Balance Sheet and statement of Profit and Loss. The equity as per IGAAP as on 31 March 2016 and 1 April 2015 have been reconciled with equity as per Ind AS on the same date. The impact of implementation is presented as either an increase or a decrease in value of the particular element of Financial Statement reviewed in audit as on 31 March 2016 as per Ind AS compared to the corresponding value of the same element as per IGAAP 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 optional exemptions include the following:

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

Ind AS permits a first time adopter of Ind AS to elect either to continue with the carrying value of its Property, Plants and Equipments (PPEs) and intangible assets as recognised in the financial statements as at the date of transition to Ind AS or by measuring their fair value by adopting the revaluation method.

Audit analysis showed that six SPSEs {Haryana Vidyut Prasaran Nigam Limited (HVPNL), Saur Urja Nigam Haryana Limited, Haryana Minerals Limited, Haryana Power Generation Corporation Limited (HPGCL), Haryana State Industrial and Infrastructure Development Corporation Limited (HSIIDC) and Panipat Plastic Park Haryana Limited} opted to adopt value of PPE at their carrying costs.

(ii) Ind AS 27–Separate Financial Statements

As per paragraphs 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 at fair value 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 HVPNL, HPGCL and HSIIDC opted to measure investment in subsidiaries / associates at carrying value / cost price.

(ii) 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 observed that HVPNL, Haryana Minerals Limited, Saur Urja Nigam Haryana Limited valued equity at carrying value/cost price and HSIIDC had valued equity at Fair Value through Other Comprehensive Income (FVOCI).

6.5 Adoption of Ind AS by the companies incorporated in 2016-17 and 2017-18

Two SPSEs viz. Panipat Plastic Park Haryana Limited (incorporated on 27 December 2016) and Saur Urja Nigam Haryana Limited (incorporated on 9 June 2016) were required to adopt Ind AS in their first financial statements (*i.e.*, 2016-17). However, Saur Urja Nigam Haryana Limited adopted Ind AS during 2017-18. There was no impact of Ind AS in respect of these SPSEs.

6.6 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 SPSEs at the time of adoption of Ind AS. A review of compliance to various provisions of Ind AS and the impact of its implementation in respect of three SPSEs (HVPNL, HPGCL and HSIIDC) was done. The results of review of compliance to various provisions of Ind AS and the impact of its implementations in respect of these three SPSEs are given below:

6.6.1 Impact on Profit After Tax

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

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

Sl. No.	Name of the SPSE	Net decrease in PAT (₹ in crore)	Net increase in PAT (₹ in crore)
1.	HSIIDC	6.82	-
2.	HPGCL	177.42	-
3.	HVPNL	-	94.42

The following factors contributed to increase/ decrease in PAT SPSE wise:

(i) Haryana Power Generation Corporation Limited (HPGCL) – Changes in valuation of liabilities towards post-employment benefits increased profits by ₹ 69.81 crore while policy of recognition of Regulatory Deferral Account Balances (₹ 199.62 crore), change in accounting of prior period adjustments (₹ 18.82 crore), increase in provisions of expenses (₹ 10.26 crore) and recognition of deferred tax at the time of adoption of Ind AS (₹ 3.07 crore) reduced the profits.

(ii) Haryana State Industrial and Infrastructure Development Corporation Limited (HSIIDC) – Writing back of provisions on doubtful debts (₹ 14.13 crore) increased the profits while adoption of different method of accounting of liabilities towards post-employment benefits and recognition of deferred tax at the time of adoption of Ind AS reduced the profits by ₹ 4.31 crore and ₹ 0.96 crore respectively.

(iii) Haryana Vidyut Prasaran Nigam Limited (HVPNL) – Profits were reduced by ₹ 4.21 crore due to adoption of different method of accounting of liabilities towards post-employment benefits.

6.6.2 Impact of Ind AS on booking 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, 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 2016, with the comparative for the period ending 31 March 2016 in selected SPSEs is as follows:

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

Sl. No.	Name of the SPSE	Net decrease in Revenue (₹ in crore)	Net increase in Revenue (₹ in crore)
1.	HSIIDC	-	0.09
2.	HPGCL	16.89	-
3.	HVPNL	-	18.72

In case of HVPNL, as per IGAAP, contribution received from customers for assets was credited to capital reserves while as per Ind AS the same is credited to deferred revenue and revenue is recognized every year in the proportion of useful life of assets. This has resulted in increase in other income of HVPNL by ₹ 17.80 crore. Further, the interest income on loan given to staff at concessional rate was recognised using effective interest method which resulted in increase in other income by ₹ 91.81 lakh.

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

The total value of assets is 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.

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

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

Sl. No.	Name of the SPSEs	Net decrease in Value of Total Assets (₹ in crore)	Net increase in Value of Total Assets (₹ in crore)
1.	HSIIDC	-	2,054.02
2.	HPGCL	-	203.32
3.	HVPNL	5.73	-

The increase in value of assets in HSIIDC was due to recognition of grant received towards KMP Expressway as deferred revenue expenditure. In HPGCL, change in policy for recognition of PPEs and change in policy of recognition of Regulatory Deferral Account Balances increased the total assets by ₹ 155.12 crore and ₹ 148.07 crore respectively. In HVPNL, change in value of land on deferred payment terms decreased its total assets by ₹ 29.42 crore.

6.6.4 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 is arrived at by reducing from the aggregate value of the paid-up share capital, free reserves by the aggregate value of accumulated losses, deferred expenditure and miscellaneous expenditure not written off. The impact of adoption of Ind AS on net worth for accounting periods beginning on or after 1 April 2016, with the comparative for the period ending 31 March 2016 in selected SPSEs is as follows:

Table 6.4: SPSE wise impact of adoption of Ind AS on Net Worth

Sl. No.	Name of the SPSE	Net Decrease in Net Worth (₹ in crore)
1.	HSIIDC	19.58
2.	HPGCL	80.51
3.	HVPNL	339.81

The main reasons for increase/ decrease in Net Worth were:

(i) Dividends proposed by the Board of Directors before the date of approval of the financial statements were recognised as a liability. However, under Ind AS, such dividends are recognised when they are approved by the shareholders in the general meeting. Thus, net worth of HSIIDC increased by ₹ 5 crore on account of adjustment of proposed dividend and ₹ 1.02 crore on account of adjustment of tax on proposed equity dividend.

(ii) In case of HVPNL, decrease in net worth was due to recognition of deferred revenue as contribution received from customer for assets was credited to capital reserves under IGAAP. However, as per Ind AS, the same was credited to deferred revenue and to be recognized every year in the proportion of useful life of asset. As a result, the net worth of the Company was reduced by ₹ 340.74 crore.

(iii) Decrease in net worth by ₹ 138.47 crore and by ₹ 0.33 crore in respect of HPGCL was due to the effect of provisions recognised and prior period adjustments during the year 2015-16, respectively.

Conclusion

Audit analysis indicated that values of profit after tax, total assets and net worth of such SPSEs were impacted by adoption of Ind AS in Phase I & II. The changes in method of recognition of revenues under Ind AS also impacted the revenues recognised by SPSEs which adopted Ind AS in Phase I & II. The effect of adoption of Ind AS are disclosed in the financial statements of the selected SPSEs for the year ended 31 March 2017 and should be considered while assessing their financial position.

Vishal Bansal

Chandigarh **(VISHAL BANSAL)**
Dated: 12 October 2021 **Principal Accountant General (Audit), Haryana**

Countersigned

New Delhi **(GIRISH CHANDRA MURMU)**
Dated: 28 October 2021 **Comptroller and Auditor General of India**