Chapter-VI

Impact of implementation of Indian Accounting Standards (Under Phase-I & II) in State Public Sector Enterprises

CHAPTER - VI

Impact of Implementation of Indian Accounting Standards (Under Phase-I & II) in State Public Sector Enterprises (SPSEs)

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 Accounting Standards. With the emergence of 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 the updated 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.

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 with effect from 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 Companies (Indian Accounting Standards) Rules, 2015.

6.2 Implementation of Ind AS

The 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:

- The 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.

- The 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:

- The 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) 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.

6.3 Objectives of Audit

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

(i) How far the various provisions of Ind AS were complied with by the State Public Sector Undertakings (SPSEs) at the time of adoption of Ind AS in Phase-I & II;

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

6.4 Scope of Audit

The study covered fifteen SPSEs which were required to adopt Ind AS in Phase-I & II. Out of fifteen SPSEs, two SPSEs[1] were required to adopt Ind AS in Phase-I and remaining thirteen SPSEs were required to adopt Ind AS in Phase-II. Out of fifteen SPSEs, eleven SPSEs[2] were required to adopt Ind AS

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1 Punjab State Power Corporation Limited (PSPCL) and Punjab State Transmission Corporation limited (PSTCL)

2 Punjab State Container and Warehousing Corporation Limited (CONWARE), Punjab Information and Communication Technology Corporation Limited (Punjab InfoTech), Punjab State Industrial Development Corporation Limited (PSIDC), Punjab Recorders Limited (PRL), Punjab Venture Capital limited (PVCL), Punjab Venture Investors Trust Limited (PVITL), Punjab Thermal Generation Limited (PTGL), Gidderbaha Power Limited (GPL), Punjab Bio Medical Equipments Limited (PBMEL), Punjab Power Packs Limited (PPPL) and Electronic System Punjab Limited (ESPL).

being subsidiaries/ joint venture/ associate of SPSEs who are following Ind AS. The list of SPSEs reviewed is given in ***Annexure 15***.

6.5 Audit Methodology

The standalone financial statements of SPSEs which have adopted Ind AS under Phase-I & II 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 compliance with various provisions of Ind AS and impact of implementation of Ind AS in these SPSEs on their revenues, profit after tax (PAT), net worth and total assets of the SPSEs 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 Status of adoption of Ind AS

Out of fifteen SPSEs which were required to adopt Ind AS, eight SPSEs (including two[3] SPSEs where commercial activities have not commenced) have adopted the Ind AS while seven SPSEs (includes one[4] active and six[5] inactive/ under liquidation SPSEs) have not adopted the Ind AS.

Three SPSEs[6] whose accounts were in arrears and not adopted Ind AS were under liquidation.

Punjab State Industrial Development Corporation Limited (PSIDC) was required to adopt Ind AS as its joint venture company Punjab Venture Capital Limited (PVCL) was required to adopt Ind AS. However, PSIDC has not adopted Ind AS.

6.7 Review of first time adoption of Ind AS

Ind AS 101–First time adoption of Ind AS required that an entity shall explain how the transition from IGAAP to Ind AS affected its Balance Sheet, financial performance and cash flows. The status of eight SPSEs who have adopted Ind AS was as under:

In accordance with this requirement, four SPSEs[7] have disclosed through notes to their financial statements for the year ended 31 March 2017 and two SPSEs (PSIEC and PCL) on 31 March 2018, the effect of the adoption of Ind AS on their Balance Sheet and Statement of Profit and Loss.

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3 PTGL and GPL – under consideration for winding up by the holding company PSPCL
4 PSIDC
5 PRL, PVCL, PVITL, PBMEL, PPPL and ESPL
6 PBMEL, PPPL, ESPL
7 PSPCL, PSTCL, CONWARE and GPL

However, two SPSEs (Punjab InfoTech and PTGL) had not disclosed in their notes to accounts any fact/ information regarding the effect of Ind AS adoption on their Balance Sheet and Profit and Loss account.

6.7.1 Optional exemption and mandatory exemption for first time adoption of Ind AS

Ind AS 101 provides for optional exemptions and mandatory exemptions to the general principle of retrospective application of Ind AS. The mandatory exemptions 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 16 - Property, Plant and Equipment (PPE)

Ind AS permits a first-time adopter to elect to continue with the carrying value of its Property, Plants and Equipment (PPE) and intangible assets as recognised 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 asset is then depreciated prospectively over its remaining useful life.

Audit analysis revealed that out of eight SPSEs, seven SPSEs[8] opted to adopt value of PPE at carrying cost and one SPSE (PTGL) had not disclosed the fact regarding valuation of PPE.

(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 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 four SPSEs having investment in subsidiaries[9] opted to measure investment in subsidiaries/ associates at carrying value/cost price.

(iii) 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.

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8 PSPCL, PSTCL, PCL, CONWARE, PSIEC, Punjab InfoTech and GPL

9 PSPCL, CONWARE, PCL and Punjab InfoTech

Audit analysis showed that out of eight SPSEs, five SPSEs[10] had valued equity at fair value and three SPSEs[11] had not disclosed their policy for valuation of equity.

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 SPSE 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 these eight SPSEs are given as follows:

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 2016, with the comparative for the period ending 31 March 2016 or as adopted in selected SPSEs is as follows:

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

(₹ in crore)

Sl. No.	Name of the SPSE	Decrease in Loss	Increase in Loss	Decrease in PAT	Increase in PAT	Net Impact
1.	PSPCL	50.12	-	-	-	50.12
2.	PSTCL	-	-	-	9.76	9.76
3.	PCL	-	0.94	-	-	0.94
4.	CONWARE	-	-	-	0.13	0.13

Source: Compiled from annual accounts of SPSEs.

In case of four SPSEs[12], no changes on PAT were reported due to adoption of Ind AS.

6.8.2 *Factors contributing to increase/ decrease in PAT/ Loss*

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

(a) CONWARE - Changes in valuation of liabilities towards post-employment benefits increased profit by ₹ 0.03 crore and rest due to change in provision for tax (₹ 0.16 crore) after adoption of Ind AS-19 dealing with employee benefit expenses of the Company.

(b) PSTCL - The profit increased by ₹ 0.09 crore due to adoption of Ind AS-19; ₹ 0.14 crore due to adjustments in finance costs after adoption of Ind AS-23 regarding Borrowing Cost; ₹ 4.27 crore due to decrease in depreciation, amortisation & impairment expenses; and ₹ 4.76 crore due to

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10 PSPCL, PSTCL, CONWARE, PSIEC and PCL

11 Punjab InfoTech, GPL and PTGL

12 PSIEC, Punjab InfoTech, GPL and PTGL

decrease in repair and maintenance after adoption of Ind AS. Increase in administrative expenses after adoption of Ind AS adversely affected profit by ₹ 0.13 crore.

(c) **PSPCL** - The loss decreased mainly due to prior period expenses not being charged to profit and loss (₹ 35.47 crore); and adjustment of excess provision provided for interest and finance charges after adoption of Ind AS (₹ 20.96 crore). The loss increased due to increase in repair and maintenance expenses of the company after adoption of Ind AS (₹ 2.05 crore); increase in depreciation after adoption of Ind AS (₹ 5.45 crore) and adjustment in employee benefit expenses after adoption of Ind AS-19 (₹ 3.07 crore).

(d) **PCL** - The loss increased due to adjustment in employee benefit expenses after adoption of Ind AS-19 (₹ 0.59 crore) and re-measurement of defined benefit plan and fair valuation of financial liabilities under other comprehensive Income/Losses after adoption of Ind AS (₹ 0.29 crore).

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 (as per Ind AS) for accounting periods beginning on or after 1 April 2016, with the comparative for the period ending 31 March 2016 (as per IGAAP) in selected State PSEs is as follows:

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

Sl. No.	Name of the SPSE	Decrease in Revenue (₹ in crore)	Increase in Revenue (₹ in crore)	Net Impact (₹ in crore)
1.	PSPCL	-	6.52	6.52
2.	PSTCL	-	0.37	0.37
3.	PCL	-	2.52	2.52

Source: Compiled from annual accounts of SPSEs.

Two SPSEs (GPL and PTGL) have not started their operations, hence, both the companies do not have any revenue for the year 2016-17 (and previous period 2015-16). There was no impact of adoption of Ind AS on booking of revenues of three SPSEs[13].

[13] CONWARE, PSIEC and Punjab InfoTech.

6.8.4 *Factors responsible for increase/ decrease in revenue*

(a) The revenue of PSPCL increased due to higher revenue from sale of power by ₹ 6.52 crore.

(b) Changes in recognition/inclusion of excise duty as a part of revenue from operations as per IGAAP but exclusion of excise duty from revenue from operation after adoption of Ind AS and recognising it as expense, increased revenue of PCL by ₹ 2.52 crore.

(c) Increase in income from sale of fixed assets helped increase revenue/ other income of PSTCL by ₹ 0.37 crore.

6.8.5 *Impact of the adoption of Ind AS on Equity*

The equity as per IGAAP as on 31 March 2017 and 31 March 2018 have been reconciled with equity as per Ind AS on 1 April 2016 and 1 April 2017. No change in equity was noticed in the SPSEs after adoption of Ind AS.

6.8.6 *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 and 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 recognised 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 (as per Ind AS) for accounting periods beginning on or after 1 April 2016, with the comparative for the period ending 31 March 2016 (as per IGAAP) in selected SPSEs is as follows:

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

(₹ in crore)

Sl. No.	Name of the SPSE	Decrease in Value of Total Assets	Increase in Value of Total Assets	Net Impact
1.	PSPCL	40.65	-	40.65
2.	PSTCL	120.38	-	120.38
3.	CONWARE	25.10	-	25.10
4.	PSIEC	-	7.25	7.25
5.	Punjab InfoTech	3.21	-	3.21

Source: Compiled from annual accounts of SPSEs

No change in the value of total assets was noticed in case of three SPSEs[14].

[14] PCL, GPL and PTGL

6.8.7 *Factors responsible for increase/ decrease in value of total assets*

(i) The total assets of the PSIEC increased by ₹ 7.25 crore due to higher trade receivables after adoption of Ind AS.

(ii) The total assets of the three SPSEs namely PSPCL, CONWARE and Punjab InfoTech were decreased by ₹ 39.86 crore, ₹ 22.04 crore and ₹ 0.61 crore respectively due to necessary adjustments in value of loans and advances and current assets after implementation of Ind AS.

(iii) The adoption of Ind AS 2 decreased the value of inventories of PSTCL by ₹ 110.66 crore while adjustments in the value of property, plant and equipment after adoption of Ind AS decreased assets by ₹ 13.79 crore.

(iv) In Punjab InfoTech, the value of inventories decreased by ₹ 2.60 crore after adoption of Ind AS 2.

6.8.8 *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 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 (as per Ind AS) for accounting periods beginning on or after 1 April 2016, with the comparative for the period ending 31 March 2016 (as per IGAAP) in selected State PSUs is as follows:

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

(₹ in crore)

Sl. No.	Name of the SPSE	Decrease in Net Worth	Increase in Net Worth
1.	PSPCL	24.37	-
2.	PSTCL	13.72	-
3.	PCL	0.61	-
4.	CONWARE	-	9.83

Source: Compiled from annual accounts of SPSEs

6.8.9 *Factors responsible for increase/decrease in net worth*

The main reasons for increase/decrease in net worth were:

(i) **CONWARE** – Net worth increased by ₹ 9.70 crore mainly due to necessary adjustments at the time of transition into Ind AS.

(ii) **PSTCL** – Net worth decreased by ₹ 13.41 crore mainly due to changes in the accounting of prior period adjustments pertaining to years 2014-16.

(iii) **PSPCL** – Decrease in retained earnings due to Ind AS adjustments of ₹ 74.50 crore at the time of transition into Ind AS decreased net worth by ₹ 24.37 crore.

(iv) **PCL** – Re-measurement of defined employee benefit plan after adoption of Ind AS decreased net worth by ₹ 0.30 crore.

6.9 Conclusion

The adoption of Ind AS resulted in changes in the financial reporting framework and use of fair valuation as against historical cost valuation. Out of fifteen SPSEs which were required to adopt Ind AS, only eight SPSEs have adopted Ind AS. After adoption of Ind AS the values of profit after tax was impacted in case of four SPSEs, revenue was impacted in three SPSEs and total assets were impacted in five SPSEs. The net worth of four SPSEs was impacted due to adoption of Ind AS. The effect of adoption of Ind AS should be considered while assessing the financial position of the concerned SPSEs.

Chandigarh **(PUNAM PANDEY)**
Dated: 20 December 2021 **Principal Accountant General (Audit)**
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Dated: 27 January 2022 **Comptroller and Auditor General of India**