

CHAPTER-VI

**IMPACT OF IMPLEMENTATION OF
INDIAN ACCOUNTING STANDARDS
(Under Phase-I and II) IN STATE PUBLIC
SECTOR ENTERPRISES**

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

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 makes amendments in the Ind AS to keep them converged with IFRS through amendments in the Companies (Indian Accounting Standards) Rules, 2015. The list of 39 Ind AS is given in **Appendix-6.1**.

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 different phases for implementation of Ind AS are given below:

(i) Phase I

Ind AS shall be mandatorily applicable to the following companies for periods beginning on or after 1 April 2016, with comparative figures for the period 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.

(ii) Phase II

Ind AS shall be mandatorily applicable to the following companies for periods beginning on or after 1 April 2017, with comparative figures for the period 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.

(iii) 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 Scope of Audit and Methodology

As on 31 March 2020, there were 27 SPSEs (excluding two statutory corporations⁷⁵). The study covered the implementation of Ind AS by four Power Sector SPSEs which were required to adopt Ind AS (Phase I : three SPSEs⁷⁶ and Phase II one SPSE⁷⁷). The details are given in **Table-6.1** below:

Table-6.1: Showing the SPSEs who adopted Ind AS and reviewed

Sr. No.	Name of SPSEs	Remarks
1	Himachal Pradesh State Electricity Board Limited (HPSEBL)	The Company adopted Ind AS from 2017-18, however, it was required to adopt Ind AS from 2016-17.
2	Beas Valley Power Corporation Limited (BVPCL)	Being a Subsidiary of HPSEBL, adopted Ind AS from 2016-17.
3.	Himachal Pradesh Power Corporation Limited (HPPCL)	Adopted Ind AS from 2016-17.
4	Himachal Pradesh Power Transmission Corporation Limited (HPPTCL)	The Company was required to adopt Ind AS from Phase II and accordingly adopted Ind AS from 2017-18.

Out of the above, one Power Sector SPSE (Himachal Pradesh State Electricity Board Limited) is listed on Bombay Stock Exchange for its debt securities and had one subsidiary Company viz., Beas Valley Power Corporation Limited (BVPCL). One SPSE⁷⁸ under the administrative control of Urban Development and Town & Country Planning incorporated (20 July 2016) had prepared its first financial statements for year ending 31 March 2017 as per Ind AS on voluntary basis. It was not considered for desk review as there was no transition from IGAAP to Ind AS involved in the accounts.

⁷⁵ Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation.

⁷⁶ Himachal Pradesh State Electricity Board Limited, Beas Valley Power Corporation Limited and Himachal Pradesh Power Corporation Limited.

⁷⁷ Himachal Pradesh Power Transmission Corporation Limited.

⁷⁸ Dharamshala Smart City Limited.

First time adoption of Ind AS required that an entity should explain how the transition from IGAAP to Ind AS affected its Balance Sheet, financial performance and cash flows. Two SPSEs viz., Himachal Pradesh Power Corporation Limited and Himachal Pradesh State Electricity Board Limited have disclosed the effect of adoption of Ind AS through Notes to their financial statements. Audit carried out desk review of these disclosures and the findings in this report are based on this desk review.

6.4 Review of first time adoption of Ind AS

Ind AS 101 – First time adoption of Ind AS prescribes the procedures that a company is required to follow while adopting Ind AS for the first time. While adopting Ind AS for the first time, the financial results shall include a reconciliation of its equity and net profit/loss as per Ind AS to equity and net profit/loss as per IGAAP, to enable the stakeholders to understand the material adjustments to the Balance Sheet and Statement of Profit and Loss Account arising from transition from the previous IGAAP to Ind AS.

The underlying principle of Ind AS 101 is that a first time adopter should prepare financial statements as if it had always applied Ind AS. However, it permitted two types of exceptions to the principle of full retrospective application of Ind AS namely mandatory exceptions and voluntary exceptions. The voluntary exceptions (applicable from transition date⁷⁹) include the following:

(i) Ind AS 16 - Property, Plant and Equipments

A first-time adopter may elect to measure an item of its Property, Plant and Equipments (PPEs) at the date of transition to Ind AS at its fair value⁸⁰ and use that fair value as its deemed cost⁸¹ at that date or may elect to measure at their IGAAP carrying values.

Audit observed that all four SPSEs opted to value its PPEs on carrying cost basis. Himachal Pradesh State Electricity Board Limited also opted for intangible assets carrying value as its deemed costs on transaction date. The Himachal Pradesh State Electricity Board Limited accepted (June 2021) that the Company has opted to continue with carrying cost of all its PPEs and carrying value as its deemed cost for intangible assets on transaction date.

(ii) Ind AS 27 - Separate Financial Statements

When a Company prepares separate financial statements, Ind AS 27 requires it to account for its investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with Ind AS 109 (Financial Instruments). 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 determined in accordance with Ind AS 27 or

⁷⁹ Date of transition to Ind AS is the beginning of the earliest period for which a company presents full comparative information under Ind AS in first Ind AS financial statements. Date of transition for companies under analysis is 01 April 2015.

⁸⁰ Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

⁸¹ An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

deemed cost in its separate opening Ind AS Balance Sheet. The deemed cost of such an investment shall be its fair value on the date of transition or as per IGAAP carrying amount at that date.

Audit review indicated that two SPSEs (Himachal Pradesh State Electricity Board Limited and Himachal Pradesh Power Corporation Limited) opted to measure investments in subsidiary at carrying value. Other two SPSEs (Beas Valley Power Corporation Limited being a subsidiary of Himachal Pradesh State Electricity Board Limited) and Himachal Pradesh Power Transmission Corporation Limited did not have any subsidiaries or jointly controlled entities and associates.

(iii) Ind AS 17 - Leases (Now as Ind AS 116)

A Company may evaluate whether an arrangement existing at the transition date contains a lease on the basis of facts and circumstances existing at transition date, except where the effect is expected to be immaterial.

Audit observed that one SPSE (Himachal Pradesh Power Corporation Limited) adopted lease classification as per Ind AS 17 in their financial statements from the transition date whereas remaining three SPSEs⁸² did not comply with Ind AS 17.

6.5 Impact of implementation of Ind AS on selected key areas

The implementation 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. The results of review of the impact of implementation on the above accounts, areas in respect of four SPSEs selected for review is given below:

6.5.1 Impact on Profit after Tax (PAT)

Review of implementation of Ind AS in audit indicated that there was increase in profits of Himachal Pradesh Power Corporation Limited consequent to adoption of Ind AS, while the loss of Himachal Pradesh State Electricity Board Limited⁸³ increased for the year 2016-17 as given in **Table-6.2** below:

Table-6.2: Impact of adoption of Ind AS on Profit after Tax

(₹ in crore)				
Sr. No.	Name of the SPSEs	Decrease in PAT/Loss	Increase in PAT/Loss	Net Impact Profit (-) Loss
1	HPSEBL	(-) 76.82	(-) 144.05	(-) 67.23
2	BVPCL	-	-	-
3	HPPCL	(-) 0.16	0.70	0.54
4	HPPTCL	-	-	-

The Hydro Electric Project of Beas Valley Power Corporation Limited is yet to start commercial operations, hence it has not prepared its first profit and loss account (up to

⁸² Himachal Pradesh State Electricity Board Limited, Beas Valley Power Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited.

⁸³ Himachal Pradesh State Electricity Board Limited had registered a loss of (-) ₹44.21 crore during 2016-17 under IGAAP. However, it increased to (-) ₹111.44 crore after adjustment under Ind AS.

2019-20) so far. In case of Himachal Pradesh Power Transmission Corporation Limited, there was no impact on profit and loss account due to implementation of Ind AS.

The management of Himachal Pradesh State Electricity Board Limited and Himachal Pradesh Power Transmission Corporation Limited have accepted (June 2021) the observations.

6.5.1.1 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 SPSEs.

Audit analysis indicated that the increase of PAT of Himachal Pradesh Power Corporation Limited was due to increase in profit by ₹0.54 crore on account of adjustment of income (₹0.70 crore) and expenses (₹0.16 crore) from Capital Work in Progress, which was reversed and taken to Profit and Loss Account.

Besides, loss of Himachal Pradesh State Electricity Board Limited increased by ₹67.23 crore due to decrease in Other income by ₹133.18 crore (due to difference of ₹330.39 crore prior to transition to Ind AS and ₹197.21 crore after transition from IGAAP to Ind AS) as well as Other expenses by ₹76.82 crore (due to preparation of profit and loss account as per IGAAP: ₹247.04 crore and as per Ind AS: ₹170.22 crore) and reversal of extraordinary items of ₹10.87 crore.

The management of Himachal Pradesh Power Corporation Limited and Himachal Pradesh State Electricity Board Limited has accepted (June 2021) the audit observation.

6.5.2 Impact of adoption of Ind AS on booking of Revenue

The definition of ‘Revenue’ under Ind AS 18 covers all economic benefits that arise in the ordinary course of activities of an entity which result 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 of enterprise resources by others yielding interest, royalties and dividends.

Audit observed that out of four SPSEs reviewed in audit, two SPSEs carried out adjustment on revenues consequent to adoption of Ind AS as given in **Table-6.3** below:

Table-6.3: State Public Sector Enterprises-wise impact of transition to Ind AS on Revenues

(₹ in crore)

Sr. No.	Name of the SPSEs	Decrease in Revenue	Increase in Revenue	Net Impact
1	HPSEBL	(-)149.98	(+)16.80	(-)133.18
2	BVPCL	-	-	-
3	HPPCL	-	(+)0.70	(+) 0.70
4	HPPTCL	-	-	-

Reasons for increase/ decrease in revenues of SPSEs indicated as follows:

(i) Increase in revenue of Himachal Pradesh State Electricity Board Limited by ₹16.80 crore was due to inclusion of exceptional and extraordinary items (extraordinary credit including subsidies against loss on account of flood, cyclone, fire, etc.,) under Revenue head.

(ii) Increase in revenue of Himachal Pradesh Power Corporation Limited was due to adjustment of Income from Capital Work in Progress which was taken to revenue.

(iii) Decrease in revenue (₹149.98 crore) in respect of Himachal Pradesh State Electricity Board Limited was due to reversal of Other Income (Prior Period Income and interest & finance charges i.e., excess provision of depreciation: ₹0.03 crore; excess provision of interest & finance charges: ₹18.25 crore; other excess provision in prior period: ₹130.96 crore and other income relating to prior period: ₹0.74 crore).

The management of Himachal Pradesh State Electricity Board Limited has accepted (June 2021) the audit observation.

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

Total value of assets is impacted by implementation of Ind AS due to difference in methods of accounting prescribed, compared to IGAAP under Ind AS 16 - Property, Plant and Equipments (PPEs), 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 PPEs 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.

On transition from IGAAP to Ind AS, all SPSEs carried out adjustments on value of total assets. Out of these, one reported an increase, two reported decrease and one reported no change in the value of total assets due to consequent adoption of Ind AS SPSEs wise impact on total assets of SPSEs is given in **Table-6.4** below:

Table-6.4: State Public Sector Enterprises-wise impact of adoption of Ind AS on value of total assets

(₹ in crore)				
Sr. No.	Name of the SPSEs	Decrease in Value of Total Assets	Increase in Value of Total Assets	Net Impact
1	HPSEBL	(-) 746.10	(+)720.90	(-) 25.20
2	BVPCL	(-) 0.72	-	(-) 0.72
3	HPPCL	(-) 172.18	(+)172.72	(+) 0.54
4	HPPTCL	(-) 0.0058	(+)0.0058	-

There was a net decrease in value of total assets for Himachal Pradesh State Electricity Board Limited (₹25.20 crore) and Beas Valley Power Corporation Limited

(₹0.72 crore). An increase in the net value of total assets was noticed for Himachal Pradesh Power Corporation Limited (₹0.54 crore).

Some significant reasons for increase/decrease in value of assets as detailed below:

6.5.3.1 Impact on assets due to reclassification/presentation as required under Ind AS-I

(i) Increase in Long Term Loans and Advances (Non-Current Assets) by ₹280.00 crore in Himachal Pradesh State Electricity Board Limited was due to inclusion of Loans and Advances to its Subsidiary (Beas Valley Power Corporation Limited) under head Long Term Loans and Advances which was previously shown under Short Term Loans and Advances.

(ii) Increase in Other Current Financial Assets of Himachal Pradesh State Electricity Board Limited amounting to ₹167.63 crore was due to excluding unbilled revenue from Trade receivables IGAAP.

(iii) Increase in Property, Plant and Equipment of ₹131.20 crore (Himachal Pradesh Power Corporation Limited) was due to including of Deposits with Courts and Land Acquisition Officer previously taken under Other Non-Current Assets.

(iv) Increase in Financial Assets of Himachal Pradesh Power Corporation Limited amounting to ₹36.54 crore was due to reclassification of Short-Term Loans and Advances and Other Current Assets as Financial Assets.

(v) Decrease in Short Term Loans and Advances under Current Assets amounting to ₹265.45 crore in respect of Himachal Pradesh State Electricity Board Limited was due to inclusion of Advances to Contractors and Suppliers ₹58.33 crore, Amount Recoverable from Himachal Pradesh Power Transmission Corporation Limited ₹69.72 crore, Amount Recoverable (others) ₹46.57 crore and Deposit with Courts etc., ₹90.83 crore under Financial Assets (others).

(vi) Decrease in Total Assets of Beas Valley Power Corporation Limited amounting to ₹0.72 crore was due to taking pre-operative expenses (under Misc. expenditure) to General Reserve.

(vii) Decrease in Current Assets (Short Term Loan & Advances) of Himachal Pradesh State Electricity Board Limited amounting to ₹25.20 crore was due to exclusion of Interest Accrued and due on GPF of staff adjusted under Other Financial Liabilities (GPF of Staff).

The management of Beas Valley Power Corporation Limited accepted (April 2021) and both managements of Himachal Pradesh State Electricity Board Limited and Himachal Pradesh Power Transmission Corporation Limited have accepted (June 2021) the audit observation.

6.5.4 Impact of adoption of Ind AS on net worth

Net worth (equity)⁸⁴ is a measure of what an entity is worth to the owners. Adoption of Ind AS mandates preparation and presentation of an opening Ind AS Balance Sheet at the date of transition to Ind AS. 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.

⁸⁴ *Net Worth= Paid up Share Capital+Free Reserve+Securities Premium Account–Accumulated Losses-Deferred Revenue Expenditure and Misc. Expenditure not written off.*

As per provisions of Ind AS 101 – First time adoption of Ind AS, any differences between carrying amounts of assets and liabilities as of 01 April 2015 compared with those presented in the IGAAP Balance Sheet as of 31 March 2015, are to be recognized in net worth under retained earnings within the Ind AS Balance Sheet.

Assessment in audit of the impact of implementation of Ind AS on the net worth of SPSEs showed that two SPSEs reported increase/decrease in net worth as given in **Table-6.5**.

Table-6.5: State Public Sector Enterprises-wise impact of adoption of Ind AS on net worth

(₹ in crore)			
Sr. No.	Name of the SPSEs	Decrease in Net Worth	Increase in Net Worth
1	HPSEBL	-	-
2	BVPCL	(-) 0.72	-
3	HPPCL	-	(+) 0.54
4	HPPTCL	-	-

Review in audit revealed the following reasons for change in net worth of above mentioned SPSEs:

- (i) Increase in net worth of Himachal Pradesh Power Corporation Limited (₹0.54 crore) was due to decrease in accumulated losses under Ind AS.
- (ii) Decrease in net worth of Beas Valley Power Corporation Limited (₹0.72 crore) was due to adjustment of Miscellaneous expenditure (pre-operative expenses) not written off.

6.6 Non-compliance of Ind AS

Non-compliance of Ind AS of all four SPSEs as reported by Statutory Auditors is given in the **Table-6.6** below:

Table 6.6: Non-compliance of Ind AS as reported by the Statutory Auditors

Sr. No.	Name of the SPSEs	IND AS number
1	HPSEBL	7, 16, 17, 18, 19, 36 & 37 (Seven) during 2017-18
2	BVPCL	(i) 23 (One) during 2016-17 (ii) 23 (One) during 2017-18 (iii) 23 (One) during 2018-19
3	HPPCL	10, 12, 19, 20, 23, 37, 107, 109 & 113 (Nine) during 2017-18
4	HPPTCL	i) 8, 19, 33 (Three) during 2017-18 ii) 8, 19, 33 (Three) during 2018-19

In reply (June 2021), the Himachal Pradesh State Electricity Board Limited stated that financial statements for the year 2017-18 have been prepared as per requirement of Ind AS. However, the reply is not tenable as all the provisions of Ind AS were not complied, which was also qualified by the Statutory Auditor in its Independent Auditors' Report. Himachal Pradesh Power Transmission Corporation Limited stated (June 2021) that non-compliance of Ind AS 8 is noted for future compliance, however, efforts are being made to comply the Ind AS 19 and partially accepted the Ind AS 33. The management of Beas Valley Power Corporation Limited stated (April 2021) that borrowing cost is

directly attributable to assets and has charged the total amount of borrowing cost under work in progress, however, accepted the audit observation.

Conclusion

Adoption of Ind AS resulted in changes in the financial reporting framework, increased use of fair valuation as against historical cost valuation and greater focus to substance than the legal form of underlying transactions. Audit analysis indicated that values of Profit after Tax, Revenue, Property, Plant & Equipment and Net Worth of the four SPSEs were impacted by adoption of Ind AS in Phase I and II. The changes disclosed in the financial statements of SPSEs should be given due consideration while assessing the performance and financial position of the concerned SPSEs.

Shimla
The 26 November 2021


(RITU DHILLON)
Principal Accountant General (Audit)
Himachal Pradesh

Countersigned

New Delhi
The 10 December 2021


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

