Chapter-IV

Implementation of Indian Accounting Standards in Government Companies

This chapter deals with the implementation of Indian Accounting Standards by the Government Companies. First time adoption of Indian Accounting Standards had negative cumulative impact on profit after tax (₹ 199.62 crore), revenue (₹ 94.99 crore), total assets (₹ 569.68 crore) and net worth (₹ 434.64 crore) as disclosed in the financial statements of the Government Companies selected for review.

Introduction

4.1 The Ministry of Corporate Affairs (MCA), Government of India (GoI) notified (February 2015) the Indian Accounting Standards (Ind AS), under Section 133 of the Companies Act 2013 vide Companies (Indian Accounting Standards) Rules, 2015 keeping the Indian economic and legal environment in view and by referring to International Financial Reporting Standards (IFRS). The Ind AS were modelled on the IFRS which were different from the Indian Generally Accepted Accounting Principles (IGAAP) framework mainly on three aspects *i.e.* fair valuation, substance over legal form and emphasis on the Balance Sheet.

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. As on 31 March 2021, 39 Ind AS are applicable. Details of Ind AS notified by MCA, GoI under Ind AS Rules and applicable as on 31 March 2021 are given in **Annexure 4.1.**

Implementation of Ind AS

4.2 The Ind AS Rules 2015 (as amended upto 31 March 2021) laid down a roadmap for implementation of Ind AS in a phased manner. Rule 4 of these rules provided that the companies and their auditors shall comply with the Ind AS specified in these rules, in preparation of their financial statements and audit respectively.

The different phases for implementation of Ind AS is as follows:

Rule 4 provided that the following companies shall comply with the Ind AS for the financial statements beginning on or after 1 April 2016 (Phase-I) and beginning on or after 1 April 2017 (Phase-II) respectively as detailed under:

Phase-I

- **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 rupees five hundred crore or more;**
- **companies other than those covered under above and having net worth of rupees five hundred crore or more; and**
- **holding, subsidiary, joint venture or associate companies of above companies.**

Phase-II

- **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 rupees five hundred crore;**
- **companies other than those covered under above and having net worth of rupees two hundred and fifty crore or more but less than five hundred crore; and**
- **holding, subsidiary, joint venture or associate companies of above companies.**

Rule 4 further provided that any company may comply with the Ind AS for the financial statements beginning on or after 1 April 2015, with comparatives for the periods ending on 31st March 2015, or thereafter. However, once a company starts reporting as per the Ind AS either voluntarily or mandatorily, it cannot revert to IGAAP.

Audit Objectives

4.3 The objective of Audit was to study the implementation of the Ind AS in SPSEs to assess:

- Compliance with the provisions of Ind AS by the Government Companies at the time of adoption; and
- Impact of implementation of Ind AS in the financial statements of the Government Companies.

Scope of Audit

4.4 As on 31 March 2021, there were 42 Government Companies (including four Government Controlled other Companies) under purview of CAG for audit. Out of these 42 Government Companies, summarized details of 15 Government Companies which were required to adopt Ind AS in Phase-I/ Phase-II (including voluntary adoption) is given in table below:

Number of SPSEs which adopted Ind AS	Number of SPSEs covered for audit	Remarks
Phase I (2016-17)		
Four Government Companies and 8 Subsidiaries	Four Government Companies and three Subsidiaries	Four Subsidiaries did not commence commercial activities

		till 31 March 2021 whereas one SPSE discontinued its commercial activity from 2016-17.
Phase II (2017-18)		
Two Government Companies	Two Government Companies	-
Voluntary Adoption (2019-20)		
One Government Company voluntarily adopted Ind AS from the financial year 2019-20	Covered	-

Thus, out of these 15 Government Companies, the study covered review of standalone financial statements of ten Government Companies for the periods in which these Government Companies adopted the Ind AS. The list of Government Companies reviewed in audit is given in **Annexure-4.2.**

Audit Methodology

4.5 The standalone financial statements of Government Companies which have adopted Ind AS under Phase-I (2016-17) and Phase II (2017-18) as well as the Government Company which has adopted Ind AS voluntarily for the first time in 2019-20 for the year of adoption have been reviewed in audit.

As per requirements of Ind AS 101 (First time adoption of Ind AS), impact of the transition from IGAAP to Ind AS on financial position, financial performance and cash flows was to be disclosed in the financial statements. This impact is presented as either an increase or a decrease in value of the concerned element of financial statement as on date of transition as per Ind AS compared to the corresponding value of the same element as per IGAAP on the same date.

The compliance of various provisions of Ind AS and disclosure of impact of implementation of Ind AS on the revenues, profit after tax (PAT), net worth and total assets of the Government Companies as disclosed in their financial statements 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) and calculation of employee benefits.

Review of first-time adoption of Ind AS

4.6 Ind AS 101 (First time adoption of Ind AS) prescribes the procedure that a company is required to follow while adopting Ind AS for the first time. The financial results of a company adopting Ind AS for the first time, shall include a reconciliation of its equity and net profit/loss as per IGAAP to equity and net profit/loss as per Ind AS. The reconciliation is to enable the stakeholders to understand the material adjustments to the Balance Sheet and Statement of Profit and Loss because of 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. It however permitted two types of exemptions to the principle of full retrospective application of Ind AS. These exemptions are mandatory exemptions and voluntary exemptions.

1. **Mandatory Exemptions**

Ind AS 101 prohibits retrospective application of some specific aspects of other Ind AS *viz*. Ind AS 10 (Events after the Reporting Period), Ind AS 109 (Financial Instruments) and Ind AS 110 (Consolidated Financial Statements).

2. **Optional Exemptions**

Ind AS 101 grant exemption from specific requirements of other Ind AS. The optional exemptions are applicable from the date of transition from IGAAP to Ind AS compliant financial statements. The date of transition is the date of beginning the earliest period for which a company presents full comparative information under Ind AS in its first Ind AS compliant financial statements. Hence, date of transition for SPSEs under analysis is 1st April 2015 and 1st April 2016 for Phase-I and Phase-II respectively whereas it is 1st April 2018 for the SPSE which adopted Ind AS from 2019-20 voluntarily.

Audit observed that out of 15 Government Companies which were required to adopt Ind AS in Phase I/II including voluntary adoption, following government companies availed the optional exemptions available under Ind AS 101 while adoption of Ind AS in preparation of their financial statements:

Table 4.1: Government Companies which availed the optional exemptions

S. No.	Ind AS optional exemption	Government Companies which availed the optional exemptions (in Nos.)
1.	**Ind AS 16- Property, Plant and Equipment (PPE), Ind AS 38- Intangible Assets and Ind AS 40- Investment Property** The Ind AS permits a first-time adopter to elect to measure its assets *viz*. PPE, intangible assets and investment property, at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date or may continue to measure at their IGAAP carrying value after making necessary adjustments for decommissioning liabilities.	14
2.	**Ind AS 27- Separate Financial Statement** 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 109 (Financial Instruments).	02

3.	**Ind AS 109- Financial Instruments** As per Ind AS 109, a company may designate a financial asset as measured at fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI), on the basis of facts and circumstances that exist at the date of transition to Ind AS.	06
4.	**Ind AS 17- Lease** Ind AS permits the first-time adopter to evaluate whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at the date of transition, except where the effect is expected to be not material.	02

Source: Information received from SPSEs.

The details of different exemptions/options availed by Government Companies are given in **Annexure 4.2.**

Impact of implementation of Ind AS on selected key areas

4.7 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 Government Companies at the time of adoption of Ind AS. While adopting the Ind AS for the first time, the Government Companies selected for review disclosed reconciliation of their equity and net profit/loss as per IGAAP to equity and net profit/loss as per IND AS in their financial statements. The results of review of compliance to various provisions of Ind AS and the impact of its implementation on PAT, revenues, total assets and net worth of the ten Government Companies selected for review is discussed in **Paragraph 4.8 to 4.15.**

Impact on Profit after tax (PAT)

4.8 The impact of adoption of Ind AS on Profits after Tax (PAT) is analysed. The impact is for the accounting period beginning on 1 April 2016 in seven Government Companies of Phase-I, 1 April 2017 in two Government Companies of Phase-II and 1 April 2019 in one Government Company which adopted Ind AS voluntarily in 2019-20.

The impact of adoption of Ind AS on PAT in these ten Government Companies is as follows:

Table 4.2: Impact on Profit after tax

(₹ in crore)

S. No.	Name of Government Company	Impact on PAT		Net Impact (+)/(-)
		Decrease (-)	Increase (+)	
Phase-I (2016-17				
1	BLMCL	-10.37	3.76	-6.61
2	RRVPNL	-74.69	258.17	183.48
3	RRVUNL	-412.42	104.28	-308.14
4	RSMML	-22.40	0.00	-22.40

5	RIICO	-108.28	71.50	-36.78
6	GLPL	-16.58	16.29	-0.29
7	RSGL	-0.31	0.13	-0.18
Phase II (2017-18)				
8	RSGSML	-6.57	3.26	-3.31
9	JMRC	-1.97	2.80	0.83
Voluntary adoption of Ind AS (2019-20)				
10	KSCL	-9.33	3.11	-6.22
Net cumulative impact				**-199.62**

Due to adoption of Ind AS, the maximum net increase in Profit after tax was observed in RRVPNL whereas the maximum net decrease in Profit after tax was observed in RRVUNL.

Factors contributing to increase/decrease in Profit after tax

4.9 Changes in valuation of different items of revenue, expenditure, assets and liabilities consequent to adoption of Ind AS can materially affect the PAT of a company. Increase/decrease in PAT of selected Government Companies (except two Government Companies[64]) consequent to adoption of Ind AS were due to the following reasons:

Increase/decrease due to recognition of deferred taxes

4.9.1 Ind AS 12 (Income Taxes) focus on accounting of temporary difference between the carrying amount of an asset or liability in the balance sheet and its tax base whereas deferred tax accounting under IGAAP focuses on difference between taxable profit and accounting profit for the period.

Audit observed that due to recognition of deferred tax as per Ind AS:

i. RIICO recorded increase of ₹ 20.40 crore in its profits; and

ii. RSGSML and JMRC recorded increase of ₹ 3.26 crore and ₹ 0.05 crore respectively in their profits.

Increase/decrease due to measurement of investments at fair value

4.9.2 All Investments are measured at fair value under Ind AS. Under IGAAP, the current investment are carried at lower of the cost or the value determined on individual investment basis at the balance sheet date. Further, long term investments are carried at cost net of permanent diminution in the value. Therefore, on adoption of Ind AS, the resulting fair value changes in investment are recognized through profit or loss.

Audit observed that due to measurement of investments at fair value through profit and loss in accordance with Ind AS 113, RIICO recorded an increase of ₹ 4.45 crore in its profits.

Increase/decrease due to change in valuation of liabilities towards post-employment benefits

4.9.3 Under IGAAP, entire cost including actuarial gain/loss forms part of the profit or loss for the year whereas under Ind AS 19, such measurements are recognized under other comprehensive income.

64 BLMCL and RSMML though prepared reconciliation statement for profit and loss account but did not disclose factors contributing to increase/decrease in PAT.

Audit observed that due to changes in valuation of liabilities towards post-employment benefits under Ind AS:

- **i.** RRVPNL, RRVUNL and RIICO recorded increase of ₹ 173.31 crore, ₹ 51.02 crore and ₹ 1.44 crore respectively in their profits; and
- **ii.** RSGSML and JMRC recorded decrease of ₹ 2.23 crore and ₹ 1.94 crore respectively in their profits.

Increase/ decrease due to capitalisation of spares as Property, Plant and Equipment

4.9.4 Under Ind AS 16, spares meeting definition of PPE including major inspection/overhauls are to be capitalised and depreciated separately. Under IGAAP, spares are recognised as inventories whereas their major inspection cost are recognized as deferred revenue expenditure and the same is charged through the profit or loss based on future economic benefits.

Audit observed that due to adoption of the method of valuation of spares under Ind AS:

- **i.** RRVPNL, RRVUNL and GLPL recorded increase of ₹ 3.51 crore, ₹ 47.45 crore and ₹ 0.14 crore respectively in their profits; and
- **ii.** RRVUNL and GLPL recorded decrease of ₹ 15.12 crore and ₹ 0.49 crore respectively in their profit. The decrease was due to charging of depreciation on major inspections and amortization of spares.

Increase/decrease due to change in valuation of financial assets and financial liabilities

4.9.5 Financial asset is an asset in which a company has a contractual right to receive cash whereas financial liabilities are those in which a company has a contractual obligation to deliver cash.

In case of Ind AS, financial assets and financial liabilities are recorded at amortized cost or fair value whereas under IGAAP, these are recorded at cost.

Audit observed that due to adoption of new method of valuation of financial assets and financial liabilities under Ind AS:

- **i.** JMRC recorded increase of ₹ 0.005 crore in its profits; and
- **ii.** RRVUNL and GLPL recorded decrease of ₹ 68.02 crore and ₹ 0.05 crore respectively in their profits. The decrease in profits of RRVUNL was due to impairment of financial assets (₹ 66.21 crore) and amortization of financial assets (₹ 1.81 crore).

Decrease due to change in valuation of finance lease

4.9.6 Under IGAAP, finance lease was to be capitalized at upfront payment made at the time of lease whereas under Ind AS 17, such lease is capitalized at the present value.

Audit observed that due to adoption of new method of valuation of finance lease under Ind AS, RRVPNL recorded decrease of ₹ 0.78 crore in its profits.

Increase/decrease due to other reasons

4.9.7 Audit observed that five Government Companies recorded increase in profits due to other reasons as detailed under:

- **i.** RIICO recorded increase of ₹ 9.91 crore and ₹ 7.18 crore in its profits due to adjustment of accrued interest on NPA and provision for doubtful debts respectively as per Ind AS. Further, RIICO recorded increase of ₹ 5.25 crore in its profits due to adjustment of prior period items as per Ind AS.
- **ii.** JMRC recorded increase of ₹ 2.53 crore and ₹ 0.18 crore in its profits due to adjustment of prior period items and depreciation respectively as per Ind AS.
- **iii.** GLPL recorded increase of ₹ 0.11 crore in their profits due to adjustment of prior period items as per Ind AS.
- **iv.** KSCL recorded increase of ₹ 3.12 crore in its profits due to adjustment in provisions on adoption of Ind AS.
- **v.** RSGL recorded increase of ₹ 0.11 crore and ₹ 0.02 crore in its profits due to restatement of prior period adjustments and reversal of transaction cost on equity shares respectively.

Audit further observed that six Government Companies recorded decrease in profits due to other reasons as detailed under:

- **i.** RIICO recorded decrease of ₹ 4.43 crore and ₹ 79.05 crore in its profits due to restatement of the loss assets at present value of the recoverable amount and change in revenue recognition on transition to Ind AS. Further, RIICO recorded decrease of ₹ 0.09 crore in its profits due to adjustment of prior period items as per Ind AS.
- **ii.** RSGSML recorded decrease of ₹ 4.35 crore in its profits. The decrease in profits was due to adjustment of extraordinary items (₹ 4.23 crore) and treatment of preference dividend as interest cost (₹ 0.12 crore) in accordance with Ind AS.
- **iii.** RRVUNL recorded decrease of ₹ 323.47 crore in its profits due to adjustment of prior period items as per Ind AS.
- **iv.** KSCL recorded decrease of ₹ 9.33 crore in its profits due to reversal of interest in accordance with Ind AS.
- **v.** RSGL recorded decrease of ₹ 0.26 crore and ₹ 0.05 crore in its profits due to reversal of prior period items and recognition of depreciation on leasehold land prospectively over the lease period respectively.

Impact on revenue from operations

4.10 Under Ind AS 18 (Revenue), revenue is the gross inflow of 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. As per the IGAAP (AS 9 – Revenue Recognition), revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an entity from the sale of goods, from the rendering of services, and from the use by others of entity resources yielding interest, royalties and dividends.

Audit observed that out of ten Government Companies selected for review in audit, four Government Companies carried out adjustment on revenues consequent to adoption of Ind AS. Of these, one Government Company (RIICO) reported significant decrease (₹ 103.21 crore) in revenue whereas three Government Companies reported increase of ₹ 8.22 crore in revenue resulting in net cumulative negative impact of ₹ 94.99 crore.

Factors responsible for increase/decrease in revenue from operations

4.11 Company wise impact of adoption of Ind AS on revenue from operations is detailed under:

- **i.** RIICO reported decrease of ₹ 103.21 crore in revenue due to change in accounting policy for revenue recognition, considering security deposits from the consumers and contractors as well as loans to employees at fair value *etc*.
- **ii.** RSMML reported increase of ₹ 3.21 crore in revenue due to recognition of the revenue at fair value instead of its transaction price.
- **iii.** RRVPNL reported increase of ₹ 3.19 crore in revenue due to adjustments/ corrections of the prior period errors.
- **iv.** RSGSML reported increase of ₹ 1.82 crore in revenue due to change in method of recognition of revenue as per Ind AS.

Impact on value of total assets

4.12 Value of total assets are impacted upon implementation of Ind AS due to difference in methods of accounting prescribed as compared to IGAAP in respect of 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{First time adoption of Ind AS} permits the adopter to continue with the carrying value for all of its PPE, intangible assets and Investment property as recognized in the financial statements measured under IGAAP as at the date of transition to Ind AS after carrying out necessary adjustments for decommissioning liabilities.

Company wise impact of adoption of Ind AS on value of total assets in selected Government Companies is detailed under:

Table 4.3: Impact on value of total assets

(₹ in crore)

S. No.	Name of Government Company	Impact on total assets		
		Decrease (-)	Increase (+)	Net Impact (+)/(-)
Phase-I				
1	BLMCL	-1.71	100.62	98.91
2	RRVPNL	-64.49	6.07	-58.42
3	RRVUNL	-867.18	386.87	-480.31

4	RSMML	-2.67	22.01	19.34
5	RIICO	-296.63	143.07	-153.56
6	GLPL	-2.37	6.90	4.53
7	RSGL	RSGL did not disclose impact of adoption of Ind AS on its total assets in the financial statements prepared on the basis of Ind AS.		
Phase II				
8	RSGSML	RSGSML did not disclose impact of adoption of Ind AS on its total assets in the financial statements prepared on the basis of Ind AS.		
9	JMRC	-	2.63	2.63
Voluntary adoption				
10	KSCL	-2.80	-	-2.80
Net cumulative impact				**-569.68**

The overall maximum increase of ₹ 98.91 crore in value of total assets was noticed in the case of BLMCL whereas overall maximum decrease of ₹ 480.31 crore in value of total assets was noticed in case of RRVUNL.

Factors responsible for increase/decrease in value of total assets

4.13 Audit analysis disclosed following reasons for increase/decrease in value of total assets:

Increase/decrease due to change in policy for recognition of PPE

4.13.1 As per Ind AS, value of those spare parts which meets the definition of PPE are to be treated as PPE instead of inventory.

Audit observed that due to adoption of Ind AS and considering spare parts as PPE in accordance with the Ind AS 16:

- **i.** RRVUNL, GLPL and RSMML recorded increase of ₹ 234.38 crore, ₹ 6.88 crore and ₹ 0.32 crore respectively in value of their total assets; and
- **ii.** RRVPNL recorded decrease of ₹ 9.69 crore in value of its total assets.

Increase/decrease due to recognition of investment at fair value

4.13.2 Under the IGAAP, investment is recognized at cost whereas the same is recognized at fair value as per Ind AS.

Audit observed that due to adoption of Ind AS:

- **i.** RSMML and RRVPNL recorded increase of ₹ 1.51 crore and ₹ 0.01 crore respectively in value of investment; and
- **ii.** RIICO recorded decrease of ₹ 28.55 crore in value of investment.

Increase/decrease due to recognition of intangible assets

4.13.3 As per Ind AS, intangible assets are amortized whereas under IGAAP, intangible assets are recognized at cost.

Audit observed that due to adoption of Ind AS, BLMCL and RRVUNL recorded an increase of ₹ 98.91 crore and ₹ 91.67 crore respectively on amortization of intangible asset.

Increase/decrease due to change in financial assets

4.13.4 The change in financial assets was as under:

i. RRVUNL recorded decrease of ₹ 58.85 crore in cash and cash equivalents, ₹ 116.34 crore in loans and ₹ 217.57 crore in other current assets due to reclassification. It also recorded increase of ₹ 52.16 crore in current financial assets (other than cash and cash equivalent) and ₹ 8.66 crore in non-current financial assets.

ii. RIICO recorded increase of ₹ 28.56 crore due to amortization of other financial assets.

Other reasons

4.13.5 The other reasons for change in value of total assets were as under:

i. RRVPNL recorded increase of ₹ 5.98 crore due to adjustment of prior period items in trade receivable. Further, it recorded decrease of ₹ 15.94 crore, ₹ 19.91 crore and ₹ 18.95 crore due to adjustment in capital work in progress, other current assets and current tax assets (net) respectively.

ii. RIICO recorded increase of ₹ 114.08 crore due to change in inventory on (i) adoption of change in policy of revenue recognition where it commenced to recognize revenue at reasonable level of development and (ii) reclassification of stock, shares and security under other current investments instead of inventory (₹ 66.60 crore), reclassification of the investment in subsidiaries as separate line item in balance sheet as per Ind AS (₹ 45.05 crore), reclassification of investment under current assets (₹ 2.23 crore), amortization of other current assets (₹ 0.20 crore). RIICO also recorded increase of ₹ 0.42 crore in value of assets due to adjustment in other non-current assets on amortized cost. Further, RIICO recorded decrease of ₹ 268.07 crore due to amortization of loan at present value by using effective interest rate method (₹ 35.44 crore), change in trade receivable on change in policy for recognition of revenue (Current: ₹ 219.89 crore and non-current: ₹ 7.35 crore) and current tax asset (₹ 5.39 crore).

iii. GLPL recorded increase of ₹ 0.02 crore in trade receivable and decrease of ₹ 2.37 crore in inventory and other current assets.

iv. JMRC recorded increase of ₹ 2.31 crore in capital work in progress due to treating the interest component recognized on carrying value of loan as borrowing cost. It also recorded increase of ₹ 0.33 crore in value of PPE due to correct classification of depreciation charged incorrectly during previous periods.

v. RRVUNL recorded decrease of ₹ 380.84 crore, ₹ 39.87 crore, ₹ 17.34 crore and ₹ 36.37 crore due to adjustment in capital work in progress, adjustment in other non-current assets, change in other current assets and change in inventory.

vi. RSMML recorded decrease of ₹ 2.67 crore due to reduction in inventory (₹ 2.59 crore) and other current assets (₹ 0.08 crore). Further, it recorded increase of ₹ 20.18 crore due to adjustment in other non-current asset on the date of transition.

vii. KSCL recorded decrease of ₹ 2.80 crore due to adjustment of the advance tax deposited in net income tax liability.

Impact of implementation of Ind AS on Net worth

4.14 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 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. The impact of adoption of Ind AS on net worth for accounting periods beginning on the date of transition to Ind AS (*i.e.* 1 April 2016 for Phase-I, 1 April 2017 for Phase-II and 1 April 2019 for voluntary adoption of Ind AS by one Government Company respectively), with the comparative for the period ended 31 March 2015, 31 March 2016 and 31 March 2018 respectively is as follows:

Table 4.4: Impact on net worth

(₹ in crore)

S. No.	Name of Government Company	Impact on net worth		
		Decrease (-)	**Increase (+)**	**Net Impact**
Phase-I				
1	BLMCL	-44.70	14.42	-30.28
2	RRVPNL	-27.97	3.52	-24.45
3	RRVUNL	-368.31	58.15	-310.16
4	RSMML	-78.64	121.71	43.07
5	RIICO	-151.74	101.33	-50.41
6	GLPL	-1.74	5.01	3.27
7	RSGL	-0.33	0.13	-0.20
Phase II				
8	RSGSML	-5.69	6.62	0.93
9	JMRC	-3.43	0.38	-3.05
Voluntary adoption				
10	KSCL	-63.36	0.00	-63.36
Net cumulative impact				**-434.64**

The overall maximum increase of ₹ 43.07 crore in net worth was noticed in RSMML whereas overall maximum decrease of ₹ 310.16 crore in net worth was noticed in case of RRVUNL.

Factors responsible for increase/decrease in net worth

4.15 Out of ten Government Companies selected for review in audit, three Government Companies registered increase in net worth whereas seven Government Companies recorded decrease in net worth.

Audit analysis disclosed following reasons for increase in net worth of the three Government Companies on adoption of Ind AS:

i. Net worth of RSSML recorded net increase of ₹ 43.07 crore due to adoption of Ind AS. It involved increase of ₹ 93.34 crore, ₹ 12.71 crore, ₹ 11.60 crore, ₹ 2.11 crore, ₹ 1.51 crore and ₹ 0.44 crore due to derecognition of proposed dividend[65], reversal of Mine closure liability, opening prior period impact, actuarial gain on gratuity as per Ind AS 19, fair valuation gain on investments and recognition of PPE respectively. It also involved decrease of ₹ 46.67 crore, ₹ 22.40 crore, ₹ 3.81 crore, ₹ 2.86 crore, ₹ 2.34 crore, ₹ 0.49 crore and ₹ 0.07 crore due to payment of earlier year dividend, adjustment for difference in profit and loss for previous year, provision for progressive mine closure charges, full depreciation of spares, amortization on mine closure liability, impact of deferred tax liability and capitalization of spares respectively.

ii. Net worth of GLPL recorded net increase of ₹ 3.27 crore due to adoption of Ind AS. It involved increase of ₹ 4.86 crore, ₹ 0.14 crore and ₹ 0.01 crore due to adjustment of prior period items, capitalization of spare parts in PPE as per Ind AS 16 and recognition of financial assets/ liabilities on amortized cost respectively. It also involved decrease of ₹ 1.74 crore due to charging depreciation on capital spares.

iii. Net worth of RSGSML recorded net increase of ₹ 0.93 crore due to adoption of Ind AS. It involved increase of ₹ 6.62 crore due to retrospective adjustment in employee benefit as per Ind AS 19. It also involved decrease of ₹ 3.20 crore and ₹ 2.49 crore due to change in other profit on reconciliation and adjustment of deferred taxes as per Ind AS 12 respectively.

Audit analysis further disclosed following reasons for decrease in net worth of the three Government Companies on adoption of Ind AS:

i. Net worth of RRVUNL recorded net decrease of ₹ 310.16 crore due to adoption of Ind AS. It involved decrease of ₹ 331.40 crore and ₹ 36.91 crore due to impairment of financial assets and adjustment of depreciation for spares and major inspection as per Ind AS 16 respectively. It also involved increase of ₹ 35.01 crore, ₹ 20.59 crore, ₹ 2.35 crore and ₹ 0.20 crore due to capitalization of spares in PPE, capitalization of major inspections in PPE as per the Ind AS 16, amortization of the financial liabilities assets/liabilities as per Ind AS 109 and prior period adjustments respectively.

ii. Net worth of BLMCL recorded net decrease of ₹ 30.28 crore due to adoption of Ind AS. It involved decrease of ₹ 44.57 crore and ₹ 0.13 crore due to adjustment of mine closure charges and amortization of the transaction cost on borrowings respectively. It also involved increase of ₹ 14.42 crore due to recognition of the deferred taxes as per Ind AS-12.

iii. Net worth of RRVPNL net decrease of ₹ 24.45 crore due to adoption of Ind AS. It involved decrease of ₹ 25.82 crore and ₹ 2.15 crore due to prior period adjustment as per Ind AS-8 and capitalization of leasehold land at present value respectively. It also involved increase of ₹ 3.52

65 Under IGAAP, proposed dividends are recognized as liability in the period to which they relate irrespective of the approval by shareholders. Under Ind AS, dividend is recognized as liability in the period in which it is declared (on approval of shareholders in a general meeting) or paid.

crore due to capitalization of spares in PPE as per Ind AS-16 and recognition of financial assets at amortized cost as per Ind AS 113.

iv. Net worth of RIICO recorded net decrease of ₹ 50.41 crore due to adoption of Ind AS. It involved decrease of ₹ 123.83 crore, ₹ 27.01 crore and ₹ 0.90 crore due to change in accounting policy for revenue recognition[66], adjustment of provisions for doubtful debts and advances and change in valuation of defined benefit plan as per Ind AS 19 respectively. It also involved increase of ₹ 4.43 crore, ₹ 18.54 crore, ₹ 1.10 crore, ₹ 21.02 crore, ₹ 39.72 crore and ₹ 16.51 crore due to classification of loss assets on present value, amortization of interest accrued on NPA, adjustment of prior period items, recognition of dividend distribution tax as liability of the year, change in recognition of deferred tax and fair valuation of investment in subsidiary/ associates/joint ventures as per Ind AS 109 respectively.

v. Net worth of JMRC recorded net decrease of ₹ 3.05 crore due to adoption of Ind AS. It involved decrease on account of adjustment of employee benefit expenses as per Ind AS 19 (₹ 3.40 crore) and discounting of security deposits as per Ind AS 109 (₹ 0.03 crore). It also involved increase of ₹ 0.33 crore and ₹ 0.05 crore due to adjustment of depreciation and discounting of deferred revenue income (security deposit payable) as per Ind AS 109 respectively.

vi. Net worth of KSCL recorded decrease of ₹ 63.36 crore due to adoption of Ind AS. It involved decrease on account of transfer of balances of capital reserve to government grant fund for project expenses (₹ 40.92 crore) and net adjustment (₹ 22.44 crore).

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 on substance than the legal form. Audit analysis of selected 10 Government Companies indicated that adoption of Ind AS had negative cumulative impact on profit after tax (₹ 199.62 crore), revenue (₹ 94.99 crore), total assets (₹ 569.68 crore) and net worth (₹ 434.64 crore) as disclosed in the financial statements of the Government companies. The cumulative impact of adoption of Ind AS did not include impact on total assets of two Government Companies (RSGL and RSGSML) as these companies did not disclose the impact in their Ind AS compliant financial statements.

Major changes carried out pertained to fair valuation of assets/liabilities as against historical cost valuation, changes in method of recognition of revenues, accounting of deferred tax, impairment of financial assets, adjustment of prior period items, amortization of intangible asset, adjustment in capital work in progress, de-recognition of proposed dividend and adjustment of depreciation for spares and major inspection. The changes disclosed in the financial

66 Under the IGAAP, Revenue from the allotment of land was recognized irrespective of stage of completion of project, whereas under IND AS, it is recognized only when the stage of completion of project reaches a reasonable level.

statements of SPSEs should be given due consideration while assessing the performance and financial position of the concerned SPSEs.

JAIPUR **(ARCHANA GURJAR)**
The 9th November 2022 Accountant General
(Audit-II), Rajasthan

Countersigned

NEW DELHI **(GIRISH CHANDRA MURMU)**
The 14th November 2022 Comptroller and Auditor General of India