CHAPTER VIII

Impact of Implementation of Indian Accounting Standards in Selected Central Public Sector Enterprises (CPSEs)

8.1 Introduction

The Ministry of Corporate Affairs notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 (16 February 2015) and Companies (Indian Accounting Standards) (Amendment) Rules, 2016 (30 March 2016) in pursuance of the provisions of Section 133 read with Section 469 of the Companies Act, 2013. One of the Ind AS i.e. Ind AS 115 - Revenue from Contracts with Customers has been deferred. Accordingly, 40 Ind AS are applicable as on 31 March 2017. The list of 40 Ind AS is given in **Appendix XXI**. The Indian Accounting Standards Rules laid down a roadmap for implementation of Ind AS, according to which the Ind AS were to be implemented in a phased manner beginning from the financial year 2016-17. The Ind AS were modelled on the International Financial Reporting Standards (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.

8.2 Implementation of Ind AS

The different phases for implementation of Ind AS is given below:

(a) 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 net worth and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of ₹500 crore or more.

Companies having net worth of ₹500 crore or more other than those covered above.

Holding, subsidiary, joint venture or associate companies of companies covered above.

(b) Phase II

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 net worth and/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 and Phase II whose net worth are more than ₹250 crore but less than ₹500 crore.

Holding, subsidiary, joint venture or associate companies of the above companies.

(c) Applicability to banking companies, non-banking finance companies (NBFCs) and insurance companies

Ind AS will be applicable from 1 April 2018 in respect of banking and non-banking finance companies (NBFCs) and from 01 April 2020 in respect of insurance companies.

(d) Voluntary adoption

Companies can voluntarily adopt Ind AS for accounting periods beginning on or after April 01, 2015 with comparatives for period ending 31 March 2015 or thereafter. However, once they have started reporting as per the Ind AS, they cannot revert to IGAAP.

(e) Overseas Subsidiary, Associate or Joint Venture of an Indian Company

In the case of overseas subsidiary, associate or joint venture of an Indian Company, the preparation of stand-alone financial statements need not be as per the Ind-AS, and instead, may continue with its jurisdictional requirements. However, these entities will still have to report their Ind AS adjusted numbers for their Indian parent company to prepare consolidated Ind AS accounts.

8.3 Scope of audit

The standalone financial statements of 67 Central Public Sector Enterprises (CPSEs) consisting of Maharatna, Navratna, Mini Ratna companies which have adopted Ind AS in preparation of their financial statements w.e.f. 01 April 2016 have been selected for review in audit. The impact of implementation of Ind AS in these CPSEs on their revenues, profit after tax (PAT), net worth and total assets of the CPSEs were reviewed. The impact on the above elements of financial statement was 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.

8.4 Audit Methodology

Ind AS 101 – 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. In accordance with this requirement all companies 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 & Loss. The equity as per IGAAP as on 31 March 2016 and 01 April 2015 have been reconciled with equity as per Ind AS on the same date. Audit carried out desk review of these disclosures in the financial statements and supporting Notes to Accounts. The findings in this report are based on this desk review. 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.

8.5 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 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. However, it permitted two types of exception to the principle of full retrospective application of Ind AS namely mandatory exceptions and voluntary exceptions. The mandatory exceptions 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 voluntary exemptions applicable from transition date[74] are the following:

(i) Ind AS 103 - Business Combinations

A company may choose not to apply Ind AS 103 retrospectively to past business combinations. However, if that company restates any business combination to comply with the requirements of Ind AS 103, then it shall restate all future business combinations.

Audit observed that 8 CPSEs out of 67 selected CPSEs applied Ind AS 103 prospectively while 2 CPSEs applied it retrospectively to past business combinations.

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

A first-time adopter may elect to measure an item of its Property, Plant and Equipment (PPE) at the date of transition to Ind AS at its fair value[75] and use that fair value as its deemed cost[76] at that date or may elect to measure at their IGAAP carrying values. Audit observed that 65 CPSEs out of 67 selected CPSEs opted to value PPE at carrying cost while 2 CPSEs (BSNL and Shipping Corporation of India Ltd.) opted to value of PPE partly on fair value basis and partly on carrying cost basis.

Ind AS 16 requires specified changes in a decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter of Ind AS is not required to comply with these requirements for changes in such liabilities that occurred before the date of transition. Audit analysis indicated that 26 CPSEs opted to value cost of decommissioning of assets prospectively while 3 CPSEs opted for decommissioning of assets retrospective application.

(iii) 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

[74] ***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.***

[75] ***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.***

[76] ***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.***

adopter measures such an investment at cost in accordance with Ind AS 27 then it shall measure that investment either cost determined in accordance with Ind AS 27 or 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 42 CPSEs out of 67 selected CPSEs opted to measure investments in subsidiaries, jointly controlled entities and associates at carrying value.

(iv) Ind AS 17 - Leases

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 21 CPSEs out of 67 selected CPSEs adopted lease classification as per Ind AS in their financial statements from the transition date.

(v) Ind AS 109 - Financial Instruments

A company may designate a financial asset as measured at Fair Value through Profit or Loss (FVTPL)[77] in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS. Further, a company may designate an investment in an equity instrument as at Fair Value through other comprehensive income (FVOCI)[78] in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Audit analysis showed that 19 CPSEs out of 67 selected CPSEs valued equity at FVOCI while 7 CPSEs valued equity at FVTPL.

(vi) Ind AS 21 - Effects of Changes in Foreign Exchange Rates

A company may continue with the previous policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the previous Financial Statements as per the existing Indian GAAP.

[77] ***Financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions. (a) It is classified as held for trading (b) It is designated by the entity upon initial recognition as at fair value through profit or loss.***

[78] ***A financial asset shall be measured at fair value through other comprehensive income if (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.***

Audit analysis indicated that 17 CPSEs out of 67 CPSEs adopted to continue with the previous policy for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the previous Financial Statements as per the existing IGAAP.

The details of different exemptions/options availed by CPSEs are given in **Appendix XXII**

8.6 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 CPSE 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 67 CPSEs selected for review is given below:

8.7 Impact on Profit after Tax (PAT)

Review of implementation of Ind AS in audit indicated that there was increase in profits of CPSEs in defence sector, infrastructure sector, power sector and shipping sector consequent to adoption of Ind AS. However Profits of CPSEs in communications sector, energy sector, fertilizers sector, metal sector and mining sector had decreased. Sector wise impact on PAT of CPSEs is given in Table 8.1 below.

Table 8.1: Sector wise impact of adoption of Ind AS on Profits after Tax

Sector	No. of companies covered	Decrease in PAT (₹ in crore)	Increase in PAT (₹ in crore)	Net Impact (₹ in crore)
Communication	3	-979.26	58.42	-920.84
Defence	4	-54.05	345.93	291.88
Energy	10	-2462.13	1007.93	-1454.20
Fertilisers	2	-18.59	1.53	-17.06
Infrastructure	11	-25.30	437.83	412.53
Metals	4	-183.08	171.85	-11.23
Mining	15	-1459.70	367.80	-1091.90
Power	6	-153.95	536.65	382.70
Shipping	6	-71.68	402.80	331.12
Others	6	-3.16	179.18	176.02

The overall maximum increase of ₹412.53 crore in PAT of companies was noticed in infrastructure sector whereas overall maximum decrease of ₹1454.20 crore in PAT of companies was noticed in energy sector. Out of 67 CPSEs selected for review, in case of

39 CPSEs (58 *per cent*), the profits have increased consequent to adoption of Ind AS whereas the profits have decreased in case of 28 CPSEs (42 *per cent*).

The reduction of profits due to adoption of Ind AS was the highest in respect of ONGC Videsh limited which recorded a decrease of profits of ₹1835 crore (89.10 *per cent*) primarily due to effect of change in functional currency[79] from Indian rupee to United States Dollars (USD) considering the primary economic environment in which it operated.

The Shipping Corporation of India recorded, the highest increase in profits of ₹375.99 crore (99.66 *per cent*) primarily due to valuation of property, plant and equipment on fair value basis.

8.8 Factors contributing to increase/decrease in PAT

The changes in valuation of different items of revenue, expenditure, assets and liabilities consequent to adoption of Ind AS can materially affect the PAT of enterprise. Analysis in audit of factors leading to increase in PAT indicated that the increase in their profits after taxes as result of implementation of Ind AS arose from changes in method of valuation of liabilities towards post-employment benefits, changes in method of accounting for investments and deferred taxes and adoption of different norms as per Ind AS for capitalisation of spares and recognition of impairment loss on financial assets. The key factors that led to decrease in profits of CPSEs were changes in method of recognition of deferred tax, changes in valuation of liabilities towards of post-employment benefits, increase in different kinds of provisions required to be made and accounting of regulatory deferral balances[80].

Audit analysis indicated that the increase of PAT of selected CPSEs consequent to adoption of Ind AS were due to the following reasons:

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

The differences accruing due to measurement of liabilities towards post-employment benefits formed part of the profit or loss for the year under IGAAP. However under Ind AS, such differences i.e. actuarial gains or losses and return on plan assets were

[79] ***Functional currency is the currency of the primary economic environment in which the entity operates.***

[80] ***A regulatory deferral account balance is an amount of expense or income that would not be recognised as asset or liability in accordance with other standards, but that qualifies to be deferred because the amount is included, or is expected to be included, by a rate regulator in establishing the price(s) that en entity can charge to customers for rate regulated goods or services.***

recognised under 'Other Comprehensive Income' instead of profit or loss. Audit observed that Indian Oil Corporation Ltd. (IOCL) recorded an increase of ₹671.79 crore in its profits upon adoption of Ind AS due to the different method of accounting of liabilities towards post-employment benefits.

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

The application of Ind AS 12 - Income Taxes required recognition of deferred tax on new temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. This was not a requirement under IGAAP. Audit observed that the losses of ONGC Videsh Ltd. (OVL) reduced by ₹295.11 crore due to new method of recognition of deferred tax laid down in Ind AS-12.

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

All financial assets and financial liabilities are carried at cost under IGAAP whereas under Ind AS, certain financial assets and financial liabilities are subsequently measured at amortised cost[81] by applying the effective interest rate[82]. Audit observed that measurement of financial assets and liabilities of Mahanagar Telephone Nigam Limited (MTNL) at amortised cost resulted in increase of profits after taxes by ₹232.53 crore. This amounted to 11.59 *per cent* of the PAT of the company as per IGAAP.

(iv) Increase in profits due to capitalization of spares as PPE

Machinery spares that are specific to a particular property, plant and equipment (PPE) are capitalised to the cost of the PPE under IGAAP. Replacement of such spares are charged to the Statement of Profit and Loss. Other Spares were included in inventory on its procurement and are charged to Statement of Profit and Loss on consumption. However, under Ind AS, all significant spare parts which meet the definition of property, plant and equipment are capitalised as property, plant and equipment and in other cases, the spare part is taken to inventory on procurement and charged to Statement of Profit and Loss on consumption. Audit observed that the profits of Bharat Petroleum Corporation Limited (BPCL) increased by ₹38.11 crore due to adoption of the above method of valuation of spares upon implementation of Ind AS.

[81] ***The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance***

[82] ***The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or financial liability.***

(v) Increase in profits due to impairment of Trade Receivables

The provision made on Trade Receivables under IGAAP was based on consideration that reflected the company's expectations, whereas Impairment of Trade Receivables under Ind AS should be recognised based on Expected Credit Loss[83]. Ind AS 109- Financial Instruments required entities to recognise loss allowances on loans (and other financial assets) at an amount equal to the lifetime expected credit loss or the 12- month expected credit loss based on the increase in the credit risk of the borrower. As a result of adoption of this method of valuation, audit observed that the profits of Hindustan Petroleum Corporation Ltd. (HPCL) increased by ₹11.51 crore.

The decrease in profits upon implementation of Ind AS arose due to the following reasons:

(i) Decrease in profits due to movement in Regulatory Deferral Account

Some entities hold items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to fixation of rates by regulatory bodies. The carrying amount of such items might include amounts that were determined under previous GAAP but these items may not qualify for capitalisation under Ind AS. Audit observed that in the case of NLC India Ltd., the profits of the company decreased by ₹906.34 crore due to net movement in regulatory deferral account balances.

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

Application of Ind AS 12- Income Taxes requires recognition of deferred tax on new temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. This was not a requirement under IGAAP. In the case of Indian Oil Corporation Limited (IOCL), audit observed that the profits of the company decreased by ₹143.84 crore due to recognition of deferred tax at the time of adoption of Ind AS.

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

Under IGAAP, the value of changes in liabilities towards post-employment benefits forms part of the profit or loss for the year whereas under Ind AS, such valuations i.e. actuarial gains and losses and return on plan assets are recognised under Other Comprehensive Income instead of profit or loss. In the case of Bharat Heavy Electricals

[83] ***Expected Credit Loss is the weighted average of credit losses with the respective risks of a default occurring as the weights where the credit loss is difference between all contractual cash flows due to an entity in accordance with the contract and all the cash flows that the entity expects to receive.***

Ltd. (BHEL), audit observed that the profits of the company decreased by ₹116.65 crore due to change in valuation of liabilities towards of post-employment benefits.

(iv) Decrease in profits due to increase in provisions of expenses

As per requirements of Ind AS 37 provisions have to be created in respect of site restoration obligation, onerous contracts and warranty expenses. This has led to increase in provisions and consequent decrease in profits of the company. Audit observed that the profits of Bharat Electronics Ltd. decreased by ₹111.18 crore consequent to such provisions being accounted for while adopting Ind AS.

8.9 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.

Audit observed that out of 67 CPSEs subject to review in audit, 45 CPSEs (67 *per cent*) carried out adjustment on revenues consequent to adoption of Ind AS. 20 CPSEs (44 *per cent*) out of these CPSEs reported an increase and 25 CPSEs (56 *per cent*) reported decrease in revenue. Sector wise impact on revenue of CPSEs is given in Table 8.2 below:

Table 8.2: Sector wise impact of transition to Ind AS on Revenues

Sector	No. of companies covered	Decrease in Revenue (₹ in crore)	Increase in Revenue (₹ in crore)	Net Impact (₹ in crore)
Communication	3	-153.84	0	-153.84
Defence	4	-75.54	397.44	321.90
Energy	10	-794.26	30485.44	29691.18
Fertilisers	2	-408.08	28.03	-380.05
Infrastructure	11	-8.65	100.91	92.26
Metals	4	0	1613.09	1613.09
Mining	15	-130.34	1221.22	1090.88
Power	6	-7.13	337.01	329.88
Shipping	6	-35.02	18.09	-16.93
Others	6	-1135.26	3.12	-1132.14

Audit observed that the overall maximum increase of ₹29691.18 crore in revenue of companies was noticed in CPSEs belonging to energy sector whereas overall maximum decrease of ₹1132.14 crore in revenue was noticed in respect of companies covered in 'other' sector.

Review in audit of the reasons for increase in revenues of CPSEs indicated as follows:

(i) Increase in revenue due to accounting of excise duty

Revenue under IGAAP was recognised net of excise duty whereas under Ind AS, revenue is recognized inclusive of excise duty. Consequently, excise duty is presented in the Statement of Profit and Loss as an expense under Ind AS. Audit observed that BPCL reported ₹29,490.13 crore (15.57 *per cent*) increase in revenues due to inclusion of Excise Duty while recognising revenues as per Ind AS.

(ii) Increase in revenue due to accounting of electricity duty

Revenue from sale of power is recognized under IGAAP net of electricity duty paid. As per Ind AS-18, revenue however, is recognized inclusive of electricity duty. As a result, revenue from sale of power of companies in power sector has been presented in the Statement of Profit and Loss inclusive of electricity duty and electricity duty is booked separately as an expense under Ind AS. Audit observed that revenue from sale of electricity recognized by NTPC under Ind AS increased by ₹729.20 crore with a corresponding increase in electricity duty under the head other expenses.

(iii) Increase in revenue due to recognition of revenue and expenditure using percentage of completion method

Completed service contract method[84] is one of the methods of recognition of revenue and expenditure under IGAAP in the case of services rendered. However, Ind AS 18 required recognition of revenue from services applying the percentage of completion method[85] only.

Audit observed that Shipping Corporation of India Limited recognised Freight & Direct operating expenses i.e. bunker charges, port dues, cargo handling expenses etc. only on completion of a voyage under IGAAP. However, upon implementation of Ind AS, the company recognized freight proportionately as per percentage completion method

[84] ***Completed service contract method is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.***

[85] ***Percentage of completion method is a method of accounting which recognises revenue in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.***

based on the completed period of voyage on the cut-off date out of the total voyage period. Simultaneously operating expenses incurred till the cut-off date were booked on a pro-rata basis compared to the total period of voyage. Consequent to the above adjustment upon adoption of Ind AS, revenue as well as profits of the company increased by ₹3.75 crore for the year ended 31 March 2016.

(iv) Increase of revenue due to accounting of target based incentive on estimation basis

Under IGAAP, target based incentives like bulk discount etc. are netted off with revenue on the basis of actual claim preferred. However under Ind AS, such discounts are to be netted off from revenue on estimation basis. Audit observed that adoption of this method of accounting incentives under Ind AS resulted in increase of revenue by ₹2.07 crore in respect of Indian Oil Company Ltd.

The reasons for decrease in revenues as observed in audit are the following:

(i) Decrease in revenue due to accounting of sales tax and octroi

Revenue is presented under IGAAP inclusive of sales tax and octroi. Under Ind AS 18, revenue is presented net of sales tax and octroi resulting in sales tax and octroi being presented as an expense in the Statement of Profit and Loss. Audit observed that this difference in accounting of sales tax and octroi under Ind AS resulted in decrease in total revenue and expenses of ONGC by ₹823.43 crore.

(ii) Decrease in revenue due to timing of revenue recognition

Revenue from sale of goods is recognised under IGAAP when the goods are actually dispatched by the seller. Under Ind AS, in situations where goods left the seller's premises but the seller continued to exercise effective managerial control on such goods till the time goods reached the buyer's premises, recognition of revenue is deferred. Revenue is recognised only when the goods are accepted by the buyer. Audit observed that adoption of this method of recognition of revenue under Ind AS resulted in elimination of margin on deferred sales by Hindustan Petroleum Corporation Limited (HPCL) resulting in reduction of the company's revenues by ₹4.38 crore.

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

Total value of assets are impacted upon implementation of Ind AS due to difference in methods of accounting prescribed compared to IGAAP under Ind AS 16 - Property, Plant and Equipment (PPE), Ind AS 38 - intangible assets, Ind AS 32 - Financial Instruments: Presentation, Ind AS 109 - Financial Instruments and Ind AS 40 - Investment Property. Ind AS 101 pertaining to first time adoption of Ind AS permitted the first-time adopter to elect to continue with the carrying value for all of its PPE as 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.

Audit reviewed the impact on value of total assets of CPSEs, due to transition from IGAAP to Ind AS. Out of 67 CPSEs subject to review in audit, 49 (73 *per cent*) companies carried out adjustment on value of total assets. Out of this, 29 CPSEs (59 *per cent*) reported an increase in value and 20 CPSEs (41 *per cent*) reported decrease in total value of assets consequent to adoption of Ind AS.

Sector wise impact on total assets of CPSEs is given in Table 8.3.

Table 8.3: Sector wise impact of adoption of Ind AS on value of total assets

Sector	No. of companies covered	Decrease in Value of Total Assets (₹ in crore)	Increase in Value of Total Assets (₹ in crore)	Net Impact (₹ in crore)
Communication	3	0	73560.66	73560.66
Defence	4	-1181.95	85.96	-1095.99
Energy	10	-1088.14	1796.31	708.17
Fertilisers	2	-73.52	0	-73.52
Infrastructure	11	-123.91	372.39	248.48
Metals	4	-2894.54	2262.65	-631.89
Mining	15	-566.66	2813.16	2246.50
Power	6	-15.35	519.06	503.71
Shipping	6	0	15501.72	15501.72
Others	6	-5.26	15.19	9.93

The overall maximum increase of ₹73560 crore in value of total assets of CPSEs was noticed in the case of CPSEs in the communication sector whereas overall maximum decrease of ₹1095.99 crore in total value of assets was noticed in case of CPSEs in the defence sector.

Review in audit of the reasons for increase in value of assets indicated the following:

(i) Increase in total assets due to change in policy for recognition of PPE

As per Ind AS value of spare parts, service equipment and standby equipment that meet the definition of PPE should be treated as PPE and not inventory. Audit observed that as a result of this method of accounting, the value of PPE booked by Power Grid

Corporation of India Limited (PGCIL) increased by ₹45.32 crore consequent to adoption of Ind AS.

(ii) Increase in total assets due to measurement of PPE at fair value

Out of the 67 CPSEs selected for review, Bharat Sanchar Nigam Limited (BSNL) measured its property, plant and equipment at fair value as per Ind AS. Audit observed that as a result of adoption of fair valuation in place of carrying cost method under IGAAP, the company recognized increase of ₹69,445.48 crore in value of PPE as on 31st March 2016.

(iii) Increase in value of total assets due to adjustment in value of oil and gas assets due to provisions for decommissioning

Discounting of provisions made for decommissioning of assets are not required under IGAAP whereas under Ind AS, these provisions are measured at discounted values, if the effect of time value of money is material. Audit observed that ONGC Videsh measured the decommissioning provisions on the transition date by availing optional exemption as per Ind AS 101. This resulted in increase in provisions made for decommissioning of assets by ₹938.85 crore and increase in oil and gas assets by ₹852.32 crore as at April 1, 2015.

The reasons for decrease in value of total assets upon implementation of Ind AS are following:

Decrease in total assets due to adjustment of financial assets and financial liabilities

Financial assets and financial liabilities under IGAAP are carried at cost whereas under Ind AS, the value of financial assets and financial liabilities are measured at amortised cost which involves the application of 'effective interest rate'. In applying the effective interest rate, an entity identifies the fees that are an integral part of the effective interest rate of a financial instrument. For financial liabilities, the fair value of the financial liability at the date of transition to Ind AS has been considered as the new amortised cost of that financial liability. This adjustment is carried out on the financial assets and financial liabilities like security deposits received, security deposits paid, long term borrowings etc.

Audit observed that the above adjustments in respect of MTNL consequent to introduction of Ind AS resulted in reduction of value of its financial assets by ₹4913.98 crore and value of its financial liabilities by ₹4780.11 crore.

Audit also observed that the implementation of Ind AS also resulted in changes in classification of assets as indicated below:

(i) Impact on assets due to classification of Bank Balances

The Bank Balances are a part of Cash & Cash Equivalents as per the IGAAP. However, as per Ind AS, only short term Bank Deposit with original maturity of less than three months should form part of Cash & Cash Equivalent. Audit observed that the change of classification resulted in Bank deposits amounting to ₹4682.37 crore of National Hydro Electric Power Corporation Limited (NHPCL) which were classified as Cash & Cash Equivalent in Indian GAAP being classified as "Financial Assets - Current - Bank Balances Other than Cash & Cash Equivalents" under Ind AS.

(ii) Re-classification of assets

Under IGAAP, leases of land are not classified as operating lease or finance lease as there was no specific accounting method prescribed for it. Accordingly, all such leases were capitalized as fixed assets. Further, there was no guidance for recognising embedded leases under IGAAP. However, under Ind AS certain leases of land have been considered as finance leases in accordance with provisions of Ind AS 17 - Leases. Audit observed that consideration of certain arrangements as finance lease of PPE upon adoption of Ind AS and capitalisation of major repairs and capital spares resulted in increase in value of PPE by ₹1,662.67 crore in respect of Steel Authority of India (SAIL).

8.11 Impact of adoption of Ind AS on Net worth

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

Adoption of Ind AS mandates preparation and presentation 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. 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 CPSEs showed that out of 67 CPSEs under review, 44 CPSEs (66 *per cent*) reported an increase in net worth and 21 CPSEs (31 *per cent*) reported decrease in net worth. Sector wise impact on net worth of CPSEs is given in Table 8.4.

Table 8.4: Sector wise impact of adoption of Ind AS on net worth

Sector	No. of companies covered	Decrease in Net Worth (₹ in Crore)	Increase in Net Worth (₹ in Crore)	Net Impact (₹ in Crore)
Communication	3	-414.03	58792.54	58378.51
Defence	4	-1399.67	444.92	-954.75
Energy	10	-1321.53	41619.74	40298.21
Fertilisers	2	-12.29	84.10	71.81
Infrastructure	11	-875.57	893.06	17.49
Metals	4	-89.74	328.26	238.52
Mining	15	-6079.61	1359.85	-4719.76
Power	6	0	5029.36	5029.36
Shipping	6	-709.73	350.98	-358.75
Others	6	-120.01	101.20	-18.81

The overall maximum increase of ₹58378.51 crore in net worth of CPSEs was noticed in respect of CPSEs belonging to the communication sector whereas overall maximum decrease of ₹4719.76 crore in net worth was noticed in respect of CPSEs belonging to the mining sector.

Audit observed the key factors responsible for increase/decrease in net worth of CPSEs upon implementation of Ind AS were reversal of proposed dividend, fair valuation of Property Plant and Equipment and Investments Reclassification of financial instruments, recognition of impairment loss on financial assets and change in the method of calculation of depletion of oil and gas assets in respect of CPSEs belonging to the petroleum sector.

The reasons for increase in net worth as observed in audit are the following:

(i) Increase in net worth due to fair valuation of long term investments

Long term investments are measured under IGAAP at cost less diminution in value which is other than temporary. However, under Ind AS, investments in equity instruments of companies other than Subsidiaries, Associates & Joint Ventures are measured at fair value. Audit observed that on the transition date, ONGC accounted these investments at fair value through 'Other Comprehensive Income' (OCI), resulting in increase in its retained earnings (Net worth) by ₹10411.84 crore and ₹11053.57 crore as at 01 April 2015 and 31 March 2016 respectively.

In the case of GAIL, fair valuation of investments in equity shares through 'Other Comprehensive Income' resulted in increase in its net worth by ₹4259.24 crore as at 31 March 2016.

(ii) Increase in net worth due to change in the accounting treatment of proposed dividend

Dividends proposed by the board of directors after the date of balance sheet but before the date of approval of the financial statements were considered as adjusting events under IGAAP. Accordingly, provision for proposed dividend was recognised as a liability. However, under Ind AS, such dividends are recognised when they are approved by the shareholders in the general meeting. Audit observed that liability for proposed dividend (including dividend distribution tax) of ₹772.81 Crore as at 31 March 2016 (₹532.98 crore as at 01 April, 2015) included under provisions was reversed by NHPC with corresponding adjustment to net worth. Consequently, the net worth of the company increased by an equivalent amount.

Further, in the case of NTPC, the effect of the adjustment of the proposed dividend resulted in increase of net worth by ₹1736.71 crore on April 2015 and ₹1732.63 crore as on 31 March 2016.

The reasons for decrease in net worth were the following:

(i) Decrease in net worth due to change in the accounting of prior period adjustments

Prior period errors, which are material are to be corrected retrospectively as per provisions of Ind AS in the first set of financial statements approved for issue after their discovery. However, AS 5 under IGAAP required the rectification of prior period items only with prospective effect. Audit observed that rectification of prior period errors with retrospective effect upon adoption of Ind AS resulted in decrease of net worth of Cochin Shipyard Ltd as on 01 April 2015 by ₹18.40 crore and decrease in its net profit during 2015-16 by ₹4.32 crore.

(ii) Decrease in net worth due to change in the accounting treatment of loans provided to employees

Loans given to employees were recorded in the financial statements at transaction value under the IGAAP. However, under Ind AS, Loans given to employees at concessional rate are required to be recognized on amortised cost adopting the Effective Interest Rate. Audit observed that adjustment of the difference between the amortised cost of such loans and transaction value in the retained earnings of ONGC Videsh Ltd. resulted in decrease of its net worth by ₹7.17crore and ₹6.99 crore as at 01 April 2015 and at 31 March 2016 respectively.

8.12 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 the underlying transaction. Audit analysis indicated that values of Profit after Tax, Property, Plant and Equipment, Financial Investments and Net Worth of selected CPSEs was impacted by adoption of Ind AS. The changes in method of recognition of revenues under Ind AS also impacted the revenues recognised by CPSEs which adopted Ind AS. The changes are disclosed in the financial statements of the selected CPSEs for the year ended 31 March 2017. These changes should be given due consideration while assessing the performance and financial position of the concerned CPSEs.

Replies (March 2018) of the Ministry of Corporate Affairs on the Chapter have been incorporated in the relevant paragraphs.

New Delhi
Dated: 09 July 2018

(Ashwini Attri)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

Countersigned

New Delhi
Dated :09 July 2018

(Rajiv Mehrishi)
Comptroller and Auditor General of India